

M/049/009

**87th Annual Report**  
**of**  
**Chief Consolidated**  
**Mining Company**

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**FOR THE YEAR ENDED**  
**D E C E M B E R**  
**T H I R T Y - F I R S T**  
**NINETEEN HUNDRED**  
**AND NINETY FIVE**

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Including 1995 Annual Report on Form 10-KSB  
as filed with the Securities and Exchange Commission

## Chief Consolidated Mining Company

General Mining Offices: 202 South Eagle Street, Eureka, Utah 84628  
Executive Offices: 866 Second Avenue, New York, N.Y. 10017

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### COMMON STOCK\*

1996 Market Price	High		Low	
First Quarter .....	13 $\frac{1}{2}$		10 $\frac{3}{8}$	
Second Quarter .....	11 $\frac{1}{4}$		8	
	High		Low	
1995 Market Price	Bid	Asked	Bid	Asked
First Quarter .....	9 $\frac{1}{8}$	9 $\frac{1}{2}$	4 $\frac{3}{4}$	5 $\frac{1}{8}$
Second Quarter .....	7 $\frac{7}{8}$	8 $\frac{1}{4}$	6 $\frac{3}{4}$	7 $\frac{1}{2}$
Third Quarter .....	7 $\frac{5}{8}$	8 $\frac{1}{4}$	6 $\frac{3}{8}$	6 $\frac{7}{8}$
Fourth Quarter .....	10 $\frac{3}{4}$	11 $\frac{1}{2}$	6 $\frac{1}{2}$	6 $\frac{7}{8}$
1994 Market Price				
First Quarter .....	4 $\frac{5}{8}$	4 $\frac{7}{8}$	3 $\frac{3}{8}$	3 $\frac{5}{8}$
Second Quarter .....	4 $\frac{1}{8}$	4 $\frac{1}{2}$	3 $\frac{3}{8}$	3 $\frac{1}{2}$
Third Quarter .....	4 $\frac{3}{4}$	5 $\frac{5}{8}$	3 $\frac{3}{8}$	3 $\frac{5}{8}$
Fourth Quarter .....	6	6 $\frac{3}{4}$	4 $\frac{1}{2}$	4 $\frac{7}{8}$

\*Market Prices—NASDAQ

Chief Consolidated Mining Company common stock is traded on NASDAQ (Ticker Symbol: CFCM) and the Pacific Stock Exchange (Ticker Symbol: CFC).

### PREFERRED STOCK

Due to the relatively few shares outstanding (1995—5,200), a price for the preferred stock is no longer quoted on the O-T-C market. The Company maintains an open offer to preferred shareholders to exchange their preferred stock for common stock on a share for share basis.



## PRESIDENT'S LETTER TO SHAREHOLDERS

To Chief Shareholders:

### *Introduction*

The strategic goal of your Company's management continues to be to develop and bring into production on its own, or through joint venture interests, five operating mines located in separate areas on Chief's thirty square miles of mining properties in the Tintic Mining District of Utah.

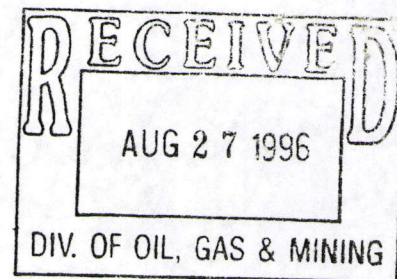
Although Chief, up to this time, has been a relatively small player in the mining business, your Company is now in a strong position that can enable it to become a major force in the United States mining industry by capitalizing on the tens of millions of dollars poured into Chief's properties over the past several years by major mining companies prior to the termination of their leases. The objectives of these companies were never fulfilled, because of poor economic results from other producing mines, primarily due to low prevailing metals prices, which restricted or terminated further investment in your Company's properties.

### *Recent Events*

Highly significant events have taken place over the past ninety days that represent major steps towards your management achieving its goal. On July 29, 1996, Chief announced the signing of a joint venture agreement under which Chief will transfer 9,000 acres representing approximately one-half of its property holdings in the Tintic District, in exchange for a 50% interest in the joint venture operating company (Tintic Utah Metals LLC). Subsidiary companies of Korea Zinc, Ltd. of Seoul, South Korea and Akiko Gold Resources Ltd. will each earn a 25% joint venture interest upon their paying a total of \$10 million towards the joint venture. The initial \$4 million was previously paid to Chief for stock purchases and has been utilized by Chief to delineate and expand the silver, lead and zinc reserves of the Burgin Mine located on joint venture property. The remaining \$6 million is to be paid into the joint venture by the Korea Zinc and Akiko subsidiaries based upon ongoing mining budgets.

Korea Zinc is a major international smelting company of lead and zinc ores and has recently further expanded its smelting capacity by its purchase of the Big River Smelter in Sauget, Illinois for \$52.5 million. As reported, Korea Zinc currently produces 3% of world and 10% of Asian zinc production and 2% of world and 10% of Asian lead production as well as producing significant amounts of gold and silver. Under the joint venture agreement, Korea Zinc has agreed to process Burgin Mine ore production.

On June 24, 1996, Chief announced that the shareholders of South Standard Mining Company approved the merger of South Standard into Chief Gold Mines Inc., a wholly owned subsidiary of your Company. The property acquired by way of the merger is comprised of 2,550 acres on which both the Trixie and Eureka Standard Mines are





located. Chief plans to reopen the Trixie production shaft in September, 1996 and, when completed, initiate underground drilling programs in both the Trixie and Eureka Standard Mines.

In June, 1996, your Company completed the rehabilitation of the Chief #2 shaft, thereby gaining access to its Plutus Mine. The clean-up of the drifts leading into the Plutus orebody area is expected to be completed by the end of August, 1996, which will be followed by the implementation of the down dip underground drilling program originally planned but never fulfilled by Asarco, Inc.

### *Five Mining Projects Outlined*

With these recent events in mind, following are the five specific mining projects that will be pursued aggressively by your Company and the Joint Venture:

1. **Burgin Mine** (silver-lead-zinc): included in the joint venture.

The Burgin was constructed and mined for eleven years by Kennecott Corporation until 1978; rehabilitated by Sunshine Mining Company during the 1980's with significant reserves delineated by Sunshine in 1987; never actually mined by Sunshine; the Burgin was returned to Chief in November, 1992 upon termination of the lease.

Prior Burgin production by Kennecott: 1,870,218 tons of ore producing 11 million ounces of silver, 338 million pounds of lead, 349 million pounds of zinc and 1 million pounds of cadmium (value of metals produced at current metals prices: \$ 420 million).

2. **Trixie Mine** (gold-silver): subject to an option for inclusion in the joint venture in 1998, conditioned upon the reimbursement to Chief by the joint venture of all acquisition, maintenance, exploration, development and mining costs incurred by Chief, net of income received.

The Trixie Mine was constructed and mined by Kennecott in the 1970's with assays from the highest grade areas running as high as 30 ounces of gold and 40 ounces of silver per ton; further developed and mined by Sunshine when it purchased lease from Kennecott until it was returned to South Standard in November, 1992, upon termination of lease; acquired by Chief's subsidiary on June 28, 1996 as a result of South Standard being merged into Chief Gold Mines.

Prior Trixie Mine production by Kennecott and Sunshine: 713,478 tons of ore producing 150,048 ounces of gold and 4,670,289 ounces of silver (value of metals produced at current metals prices: \$ 82 million).

3. **Plutus Mine** (silver-gold-lead-copper): not included in joint venture.



from the Burgin Mine on land wholly owned and controlled by your Company. The balance is located on properties included in the joint venture, however, Chief has retained surface real estate rights in this area. Recent sales to Eureka residents of small parcels constituting less than one acre have been based on a \$10,000 per acre selling price.

There has yet to be a sale of substantial acreage for residential or commercial construction. As the growth of Utah commercial and residential real estate continues to the south of Salt Lake City and Provo, sales of substantial acreage of your Company's holdings remain a significant potential source of future income. Surface real estate has a zero valuation on your Company's balance sheet.

### *Summary*

In 1996, your Company became an operating mining company through both its wholly owned mining assets and its 50% interest in the Tintic Utah Metals LLC joint venture. Subject to drilling results and subsequent successful ore development, it is projected that production from one or more mines, located in one or more areas, could begin in 1997. The future potential for earnings by your Company from the projects described above is highly significant to Chief shareholders, especially in view of the relatively small number of outstanding shares of Chief stock (approximately 6 million shares) compared with other mining companies, and in relation to the extent and magnitude of your Company's mining assets and interests.

Chief's thirty square miles of Tintic District mining and real estate properties are located in the United States. While many domestic mining companies are rushing to develop new projects outside of the United States, foreign companies who are more cognizant of geopolitical realities, are looking toward investing in the safety and security of assets located in the United States. If past history offers a clue to the future, offshore mining investments by domestic mining companies, especially in third world countries with governments currently perceived as "stable", may not prove to be as risk-free as some may envision.

Thank you for your continuing support and confidence in your Company's future.



Leonard Weitz  
President and Chief Executive Officer  
August 12, 1996

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

- ☒ Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934  
(Fee required)

For the fiscal year ended December 31, 1995

- ☐ Transition report under Section 13 of 15(d) of the Securities Exchange Act of  
1934 (No Fee required)

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-1761

CHIEF CONSOLIDATED MINING COMPANY

(Name of Small Business Issuer in its Charter)

Arizona  
(State of Other Jurisdiction  
of Incorporation or Organization)

87-0122295  
(I.R.S. Employer  
Identification No.)

866 Second Avenue, New York, New York  
(Address of Principal Executive Offices)

10017  
(Zip Code)

(212) 688-8130  
(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on which Registered</u>
<u>Common stock, \$0.50 par value</u>	<u>NASDAQ Small-Cap Market</u>
_____	<u>Pacific Stock Exchange</u>

Securities registered under Section 12(g) of the Exchange Act:

None  
(Title of Class)



Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes   X   No           

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB.

  X  

State issuer's revenues for its most recent fiscal year. \$90,390.

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.) \$62,561,621 as of March 15, 1996.

Note: If determining whether a person is an affiliate will involve an unreasonable effort and expense, the issuer may calculate the aggregate market value of the common equity held by non-affiliates on the basis of reasonable assumptions, if the assumptions are stated.

#### ISSUERS INVOLVED IN THE BANKRUPTCY PROCEEDING DURING THE PAST FIVE YEARS

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.

Yes            No           

#### APPLICABLE ONLY TO CORPORATE REGISTRANTS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at March 15, 1996</u>
<u>Common Stock \$0.50 par value</u>	<u>5,440,594</u>



## DOCUMENTS INCORPORATED BY REFERENCE

If the following documents are incorporated by reference; briefly describe them and identify the part of the Form 10-KSB (e.g., Part 1, Part II, etc.) into which the document is incorporated: (1) any annual report to security holders; (2) any proxy or information statement; and (3) any prospectus filed pursuant to Rule 424(b) or (c) of the Securities Act of 1933 ("Securities Act"). The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for the fiscal year ended December 24, 1990).



## PART I

### Item 1. Description of Business.

#### *General.*

Registrant is a corporation formed under the laws of Arizona in 1909. Registrant is the owner of approximately 14,500 acres of patented mining ground in the Tintic Mining District, Juab and Utah Counties, Utah and approximately 200 acres of unpatented properties in the same area. Registrant holds stock interests in other companies owning mining properties, all of which are consolidated or unconsolidated subsidiaries of registrant.

See Item 2. "Description of Property." for details concerning: registrant's properties in the East Tintic Mining District and Main Tintic Mining District; production from registrant's Burgin Mine when it was previously under lease to Kennecott Corporation; current ore reserves at the Burgin Mine; results of current underground drilling program being conducted by registrant; and other information relating to registrant's properties in Utah.

Registrant's mining office is located at Eureka, Juab County, Utah 84628. Its executive office is located at 866 Second Avenue, New York, NY 10017. Registrant has a total of eighteen employees, fifteen of whom are employed in Utah and three in New York. Since the third quarter of 1995, mine development work, including underground drilling and drifting, has been primarily conducted by registrant's employees in Utah; during 1994 and the first half of 1995, registrant had used outside contractors for such work. Registrant continues to use an outside contractor for rehabilitation work on certain of its mine shafts. See Item 2. "Description of Property-Current Underground Drilling Program."

See "Agreement With AKIKO Gold Resources Ltd. Dated March 11, 1994." and "Operating Agreement.", below, for information concerning a joint venture arrangement that would be accomplished through the formation by registrant together with AKIKO Gold Resources Ltd. ("Akiko") and Korea Zinc Ltd. ("Korea Zinc") of a limited liability company, and pursuant to which registrant would transfer approximately 8,700 acres of its properties, including its Burgin Mine, in the East Tintic Mining District to East Tintic LLC, a Colorado limited liability company ("East Tintic LLC") in exchange for a 50% membership interest in East Tintic LLC. Registrant, Akiko and Korea Zinc are currently negotiating the terms of an agreement to create the joint venture, but any such joint venture arrangement is subject to the parties entering into a written agreement. If the agreement is signed, a significant portion of registrant's land ownership will be transferred to East Tintic LLC. See Item 2. "Description of Property.-Main Tintic Mining District Properties", below, for information concerning registrant's remaining approximate 6,000 acres, including the Plutus Mine area, that will not be transferred to East Tintic LLC. If the joint venture arrangement is not consummated, registrant will retain all its current properties. See Item 6. "Management's Discussion And Analysis Or Plan Of Operation.-PLAN OF OPERATION-

## Alternative Plan If Joint Venture Not Consummated".

### *Agreement With AKIKO Gold Resources Ltd. Dated March 11, 1994.*

Registrant and Akiko entered into a written agreement dated March 11, 1994 (the "1994 Akiko Agreement") that provided for the eventual creation of a joint venture project for the development of registrant's East Tintic Mining District properties in Utah, including registrant's Burgin Mine, and the purchase by Akiko of 1,035,000 shares of registrant's unregistered common stock, subject to various elections and financings by Akiko. See Item 2. "Description of Property.- East Tintic Mining District Properties."

After Akiko had purchased 535,000 shares of registrant's stock under the 1994 Akiko Agreement, Akiko assigned its right to purchase the remaining 500,000 shares under the 1994 Akiko Agreement to Korea Zinc Company, Ltd., a Korean company ("Korea Zinc"). Akiko also assigned to Korea Zinc, one-half of Akiko's rights to participate with registrant in the joint venture project for the development of registrant's East Tintic Mining District properties in Utah under the 1994 Akiko Agreement. Korea Zinc purchased the aforementioned 500,000 shares of registrant's unregistered common stock on September 30, 1995.

As a result of Akiko's assignment to Korea Zinc of a portion of its rights under the 1994 Akiko Agreement, negotiations for the formation of the joint venture are being conducted by registrant with both Akiko and Korea Zinc. No final written agreement has been entered into. Registrant anticipates that terms of such an agreement will be included in an agreement entitled "Operating Agreement of East Tintic LLC" (the "Operating Agreement"). However, no assurance can be given that such agreement will be consummated.

### *Operating Agreement.*

The Operating Agreement, if signed, will be a result of the 1994 Akiko Agreement that provided, in part, for the eventual creation of a joint venture project for the development of registrant's East Tintic Mining District properties in Utah, including registrant's Burgin Mine. The parties to the Operating Agreement will be registrant, Akiko and a subsidiary company of Korea Zinc ("Korea Zinc's Subsidiary"). It was determined by said parties to the Operating Agreement that ownership of the joint venture properties will vest in a limited liability company formed under the Colorado Limited Liability Company Act (the "Colorado Act") and that all the business and mining related operations of the joint venture will be conducted by said limited liability company. Upon execution of the Operating Agreement, a company to be named "East Tintic LLC" will be formed under the Colorado Act. Consistent with the 1994 Akiko Agreement, registrant will have a 50% membership interest and Akiko and Korea Zinc's Subsidiary will each have a 25% membership interest, as the three members of East Tintic LLC.

If the Operating Agreement is signed, registrant will transfer by mining deed to East Tintic LLC, the mining rights to approximately 8,500 acres of its patented mining ground in the East



Tintic Mining District of Utah, including the Burgin Mine, and approximately 200 acres of unpatented mining claims in the same vicinity. The terms of the Operating Agreement will require that Akiko and Korea Zinc's Subsidiary fund East Tintic LLC with \$6,000,000 in initial cash contributions ("Initial Cash Contributions") over a period ending no later than August 31, 1998. The Initial Cash Contribution will be paid in by Akiko and Korea Zinc's Subsidiary based upon mining budgets agreed upon from time to time by the three members of East Tintic LLC. If those Initial Cash Contributions are not timely paid, Akiko and Korea Zinc's Subsidiary shall be deemed to have resigned as members of East Tintic LLC and full title to the East Tintic Mining District properties contributed by registrant to East Tintic LLC shall revert to registrant, with no obligation upon registrant to repay any Initial Cash Contributions previously paid to East Tintic LLC by Akiko and/or Korea Zinc's Subsidiary. A reverter deed formally returning legal title to the properties to registrant will be held in escrow pending the receipt by East Tintic LLC of the \$6,000,000 Initial Cash Contribution.

After Akiko and Korea Zinc's Subsidiary have contributed the \$6,000,000 Initial Cash Contributions to East Tintic LLC, additional cash contributions by all three members of East Tintic LLC shall be made based upon their respective membership percentage interests in East Tintic LLC. Based upon the membership percentages that will be in effect upon the signing of the Operating Agreement, registrant's share of such additional cash contributions will be 50%. However, under certain circumstances, such as a member contributing less than its proportionate share of an approved budget, the percentage of a member's interest could change. The exact amount of these additional cash contributions will depend upon the program and budgetary requirements of East Tintic LLC as approved by the members.

The primary goal of East Tintic LLC will be to bring the Burgin Mine back into production. Under the terms of the 1994 Akiko Agreement, registrant was required to initiate spending of funds on developmental work and other joint venture related costs and expenses out of the \$2,000,000 proceeds received by registrant from the sale of 500,000 shares of registrant's common stock to Akiko. Accordingly, beginning in January, 1995, registrant initiated an underground drilling program in the west end of the Burgin Mine, together with additional drifting and the construction of five new underground drill stations. The drilling program was designed to increase the Burgin Mine's proven and probable ore reserves by enlarging previously delineated reserves in several areas of the Burgin orebody. See Item 2. Description of Property.- Current Underground Drilling Program for results of the drilling program to date.

The Operating Agreement, if signed, will contain a comprehensive agreement between the registrant, Akiko and Korea Zinc's Subsidiary that will govern the management and operation of the properties owned by East Tintic LLC and each of the parties rights and obligations as to each other. The following briefly summarizes some of the important aspects of the Operating Agreement currently being negotiated and anticipated by registrant to be included as part of the agreement:

#### *Capital Contributions.*



*Initial Capital Contributions:* Registrant's initial capital contribution to East Tintic LLC will be registrant's East Tintic Mining District properties, including the Burgin Mine, and all equipment and other mining property and assets and all information and data relating to same. Akiko's and Korea Zinc Subsidiary's initial capital contribution to East Tintic LLC will be \$3,000,000 each in cash payable in installments, but not later than August 31, 1998. If Akiko and Korea Zinc's Subsidiary are to earn a vested interest in East Tintic LLC, the full \$6,000,000 initial cash contribution must be paid in by them to East Tintic LLC. If either of them is delinquent in funding its portion of the Initial Cash Contributions, the other shall have the right to contribute the delinquent portion of cash, by way of either an adjustment in membership percentage interests between them or by way of a loan. However, registrant's 50% membership percentage interest would not be affected by the foregoing. If Akiko and Korea Zinc's Subsidiary do not cumulatively pay in the \$6,000,000 Initial Cash Contribution to East Tintic LLC within the time requirements of the Operating Agreement, both Akiko and Korea Zinc's Subsidiary will be deemed to have resigned as members of East Tintic LLC and registrant will have the right to exercise the reverter provision of the mining deed to be granted to East Tintic LLC for the East Tintic Mining District properties that registrant contributed and to regain full ownership of such properties.

*Later Capital Contributions:* After Akiko and Korea Zinc's Subsidiary have paid in the initial \$6,000,000 capital contributions, the members, including registrant, will be obligated to make additional contributions to fund approved programs and budgets in proportion to the members' percentage interests in East Tintic LLC. The failure of a member to meet its contribution requirement could result in the dilution of that member's percentage interest or its elimination as a member of East Tintic LLC.

#### *Management Of East Tintic LLC.*

The management of East Tintic LLC will be conducted by the members through a management committee, with each member having its representatives on the committee. Each member will designate one of its representatives on the committee to vote on matters coming before the committee, which vote shall be in proportion to the member's respective membership percentage interest. Unless the Operating Agreement specifically provides for a unanimous vote, the affirmative vote of the members holding a majority of the members' percentage interests shall determine the decisions of the management committee. A majority vote to approve a program and budget is needed, but the approval of a program and budget for major mining development requires the unanimous affirmative vote of the members.

The Operating Agreement will provide that the members shall unanimously select an operations director who shall have the delegated power to manage, direct and control operations of East Tintic LLC in accordance with programs and budgets approved by the members' management committee and implement the decisions of the members. The operations director shall be on the management committee, but shall not have any vote.

### *Programs And Budgets.*

The operations of East Tintic LLC shall be conducted, expenses shall be incurred, and assets shall be acquired only pursuant to approved programs and budgets. The members, through the vote of the management committee, shall vote on proposed programs and budgets. Funds contributed by Akiko and Korea Zinc's Subsidiary during the initial contribution phase will be used in accordance with approved programs and budgets to confirm additional proven and probable ore reserves and for other operations appropriate to produce adequate information for the completion of a feasibility study, which study will take into account the anticipated increase in proven and probable ore reserves that will result from registrant's current drilling program. The purpose of such a feasibility study will be to assist the members in deciding whether to bring the Burgin Mine into production and, if a decision to produce is unanimously made by the members, to provide the basis for a program of development, including mine rehabilitation and construction. If a production program is approved by the members, the operations director will attempt to arrange project financing for that production program, which financing may be secured by East Tintic LLC's interest in its properties and other assets.

Registrant will be required to complete expenditure of the \$2,000,000 received from the sale of 500,000 shares of its common stock to Korea Zinc for the purposes of East Tintic LLC. To date, registrant has spent since January, 1995 approximately \$3.5 million in its drilling program and related activities out of the \$4 million it is required to spend under the 1994 Akiko Agreement.

### *Tax Implications of East Tintic LLC.*

It is the intention of the members that East Tintic LLC be treated as a partnership under the Internal Revenue Code of 1986, as amended. Accordingly, registrant will, if the Operating Agreement is signed, include its proportionate share of income or loss from East Tintic LLC in registrant's corporation income tax return. A member's percentage interest in East Tintic LLC will determine the member's proportionate share of income or loss, except the Operating Agreement will provide that each member will be allocated expense deductions emanating from the property such member contributes to East Tintic LLC. Thus, Akiko and Korea Zinc's Subsidiary will each be allocated the tax deductions that arise from their respective Initial Cash Contributions and registrant will be allocated the tax deductions that arise from its contribution of East Tintic Mining properties, such as cost depletion, depreciation on equipment, and development costs.

### *Distributions By East Tintic LLC.*

Distributions of cash or property by East Tintic LLC will be made to the members on a pro-rata basis in proportion to their percentage interests on the date of distribution. The Operating Agreement will contain provisions that define the members rights to receive such distributions.



### *Right of First Refusal.*

If a member desires to sell its interest in East Tintic LLC to a third party, the Operating Agreement will provide the mechanics under which the other members have the prior right to purchase the selling member's interest on the same terms as offered by the third party.

### *Registrant's Contribution Of Additional Property.*

Registrant is currently a party to a proposed merger transaction with South Standard Mining Company, a Utah corporation ("South Standard"). See "Proposed Merger Of South Standard Into Registrant", below. If the merger is consummated, with South Standard's 2,554 acres of property in the East Tintic Mining District consequently being transferred to registrant with its other mining assets, the Operating Agreement will require registrant to contribute those properties and assets to East Tintic LLC as part of registrant's overall capital contribution to East Tintic LLC.

### *Projected Costs And Time Involving The Burgin Mine.*

If the development work and other aspects of the Burgin Mine are successfully completed by East Tintic LLC and a production budget is agreed upon by the members and adequate financing obtained, registrant estimates that it would be a minimum of two years before the Burgin Mine would become fully operational. However, registrant believes that some revenues can be realized by East Tintic LLC from other areas of East Tintic LLC's properties, such as the Trixie Mine that will be transferred to East Tintic LLC if the merger with South Standard is consummated. Based upon current costs, it is estimated that approximately \$20 to \$30 million of additional financing will be required to bring the Burgin Mine into operation. See Item 6. "Management's Discussion And Analysis Or Plan Of Operation.- PLAN OF OPERATION" for information concerning the current value of registrant's proven and probable ore reserves that, if the Operating Agreement is signed, will be transferred to East Tintic LLC, and potential sources of income to registrant from properties in the Main Tintic Mining District that will be retained by registrant and not transferred to East Tintic LLC.

### *Proposed Merger of South Standard Into Registrant.*

Pursuant to the terms of an Agreement and Plan of Merger dated as of September 20, 1995 (the "Merger Agreement"), South Standard will be merged with and into a wholly owned subsidiary of registrant, subject to an effective registration statement filed with the U. S. Securities and Exchange Commission for registrant's shares to be issued under the merger and the approval of the merger by the shareholders of South Standard (the "Merger"). Approval of the Merger by shareholders of registrant is not required under Arizona law.

If the Merger is consummated, all of South Standard's assets, subject to its liabilities, will be transferred to registrant's wholly owned subsidiary, or to registrant if that subsidiary is merged



into registrant prior to the effective date of the merger. In exchange, each shareholder of South Standard will receive 0.3 share of registrant's common stock for each share of South Standard held by the shareholder. South Standard currently has outstanding 1,241,717 shares of common stock which, if the Merger is consummated and based on the 0.3 exchange rate, would result in an increase of the number of registrant's current outstanding shares by approximately 6.9 %. Under Utah law, South Standard's shareholders will have the right to dissent from the Merger, in which event they would be entitled to receive from registrant "fair value" for their shares (the value immediately before the Merger excluding any appreciation or depreciation in anticipation of the Merger). However, the Merger Agreement provides that if the holders of more than 3% of South Standard's shares exercise their dissenters' rights, registrant shall have the right to terminate the Merger Agreement, even if the other South Standard shareholders have approved the Merger.

The following table sets forth the last reported sales price per share of registrant's common stock on NASDAQ and of South Standard's common stock on the over-the-counter market (with approximately two market makers located in Salt Lake City, Utah and one in Boca Raton, Florida) on July 11, 1995, the last trading day before announcement regarding the Merger, and on March 15, 1996:

	<u>Registrant's Common Stock</u>	<u>South Standard's Common Stock</u>
July 11, 1995	\$ 8.00	\$1.125
March 15, 1996	\$11.50	\$2.50

See Item 2. "Description Of Property-Property To Be Received From South Standard." for information concerning South Standard's mining properties to be received by registrant if the Merger is consummated, and which property would in turn be contributed by registrant to East Tintic LLC. See "Registrant's Contribution Of Additional Property", above.

## Item 2. Description of Property.

### *Acreage Owned and Location.*

Registrant is the owner of approximately 14,500 acres of patented mining ground in the Tintic Mining District, Juab and Utah Counties, Utah and approximately 200 acres of unpatented mining claims in the same area. The location of these properties is divided between two areas: the East Tintic Mining District consisting of approximately 8,500 acres of patented mining ground and 200 acres of unpatented mining claims, and the Main Tintic Mining District consisting of approximately 6,000 acres of patented mining ground. Title to patented mining ground owned by registrant is fully vested in registrant; unpatented mining claims owned by registrant are possessory rights to land owned by the U.S. Government and are subject to annual rental



payments and other conditions as to validity.

#### *East Tintic Mining District Properties.*

Included within registrant's East Tintic Mining District properties is the Burgin Mine that was operated by Kennecott Corporation ("Kennecott"), from 1966 to 1978, as part of property that Kennecott had leased from registrant and other co-lessors, and a concentrating mill and various other buildings and support facilities that were built by Kennecott on registrant's property. See "Leasing History Of Burgin Mine.", below and Item 1. "Description of Business. - Operating Agreement." for information on Burgin Mine and details concerning plans to transfer the East Tintic Mining District properties under a joint venture arrangement pursuant to the terms of an agreement that registrant anticipates will be signed during the second quarter of 1996.

#### *Main Tintic Mining District Properties.*

The acreage comprising the Main Tintic Mining District includes several sites targeted by registrant for future exploration and development. Included is the Plutus Mine property upon which registrant will initiate exploratory underground drilling during the second quarter of 1996. See Item 6. "Management's Discussion and Analysis or Plan of Operation.-PLAN OF OPERATION-Plutus Mine Property".

#### *Leasing History of Burgin Mine.*

In 1956, registrant and South Standard Mining Company ("South Standard"), together with three other co-lessors who were subsequently acquired by either South Standard or registrant, had leased approximately 10,000 acres in the East Tintic Mining District to Kennecott under a Unit Lease Agreement ("Unit Lease"). In 1983, Kennecott sold its interest in the Unit Lease to a subsidiary of Sunshine Mining Company ("Sunshine"); the subsidiary then assigned the Unit Lease to Sunshine.

Registrant contributed 4,733 acres to the Unit Lease properties in 1956, and in 1978, 1,387 acres owned by registrant that comprised a part of the properties under the Unit Lease were removed by amendment and returned to registrant. That latter acreage included underground mining rights to the Burgin Mine. South Standard, as part of the amendment to the Unit Lease, retained an interest in future royalty production from the Burgin Mine that had been so returned to registrant. South Standard's Trixie Mine properties were contributed by South Standard to the Unit Lease properties in 1956 and continued to remain subject to the Unit Lease after Kennecott sold its interest in the Unit Lease to Sunshine in 1983, as referred to above. Registrant separately entered into a lease agreement with Sunshine covering underground mining rights to the Burgin Mine in 1980. Thus, Sunshine became the lessee of both the remaining properties under the Unit Lease (to which registrant and South Standard were parties) and the Burgin Mine under lease with registrant.



In 1989, registrant initiated lawsuits against Sunshine on various grounds, including registrant's claim that Sunshine failed to honor obligations to mine properties under Sunshine's Burgin Mine lease with registrant and under the Unit Lease. The lawsuits were discontinued in 1992 and as part of an agreement with Sunshine (i) the Unit Lease was canceled with registrant and South Standard each receiving back their respective properties that had been under the Unit Lease, and (ii) the Burgin Mine lease was cancelled and the Burgin Mine was returned to registrant.

Additionally, registrant and South Standard entered into a separate agreement regarding sharing of royalty interests from certain of their respective properties. See "Proposed Merger of South Standard Into Registrant.", below, and Item 1. "Description of Business.-Operating Agreement." for information concerning the Merger Agreement that is subject to approval by the South Standard shareholders and the contribution by registrant to East Tintic LLC of the property that will be transferred to registrant if the Merger is consummated..

*Production From Burgin Mine While Under Lease To Kennecott.*

Kennecott mined 1,870,218 tons of ore from the Burgin Mine orebody under the Unit Lease over a twelve year period which produced: 10,929,978 ounces of silver; 338,127,751 pounds of lead and 349,209,284 pounds of zinc.

*Proven And Probable Ore Reserves At The Burgin Mine.*

As indicated above, Sunshine acquired the underground mining rights to the Burgin Mine in 1980. As lessee of the Burgin Mine, Sunshine conducted extensive surface and underground drilling programs and computed the property's proven and probable ore reserves. Sunshine had access to the proven and probable ore reserves by means of the Burgin Mine's Apex number 2 shaft. The shaft, together with the connecting drifts and drill stations, had been rehabilitated by Sunshine at a cost of \$6 million. After the Burgin Mine was returned to registrant in 1992, registrant continued to have access to the reserves through the Apex number 2 shaft, and the shaft is currently being utilized by registrant in its underground reserve expansion drilling program. See Item 6. "Management's Discussion and Analysis or Plan of Operation.-PLAN OF OPERATION-Underground Drilling Program."

Ore reserves of the Burgin orebody are estimated as follows:

	Contained Tons of <u>Ore</u>	Contained Ounces of <u>Silver</u>	Contained Tons of <u>Lead</u>	Contained Tons of <u>Zinc</u>
Proven and Probable Reserves (1)	1,032,173	23,903,536	275,090	90,189
Mineralized Material (2)	1,100,000			



(1) The weighted average ore grades are 23.16 ounces per ton silver, 26.65% lead and 8.75% zinc. Mining dilution is estimated at 22% and metallurgical recoveries are estimated at, silver 83%, lead 81% and zinc 68%.

(2) Sufficient drilling or underground sampling has been done to determine the tonnage and grade of this deposit, but it does not qualify as a commercially viable orebody (reserve) until a final economically feasible study upon such work is concluded.

*Current Underground Drilling Program At Burgin Mine.*

As indicated above, registrant's lease with Sunshine was terminated in 1992 and the Burgin Mine was returned to registrant. Registrant then began its efforts to seek a joint venture partner, culminating in the March 11, 1994 agreement with Akiko. See Item 1. "Description of Business.-Agreement With AKIKO Resources Ltd. Dated March 11, 1994." and Item 1. "Description of Business.-Operating Agreement." for a description of registrant's obligation to expend monies it received from the sale of its unregistered common stock to Akiko and Korea Zinc for purposes related to the development of the East Tintic Mining District properties. As stated therein, the parties to the proposed joint venture are negotiating the terms to be included in a written Operating Agreement under which the joint venture will proceed through the use of a limited liability company.

In January, 1995, Registrant initiated an underground drilling program in the west end of the Burgin Mine, together with additional drifting and the construction of five new underground drill stations. The drilling program was designed to increase the Burgin Mine's proven and probable ore reserves by enlarging previously delineated reserves in several areas of the Burgin orebody. As of the end of March, 1996, a total of twenty-two drill holes had been completed with assays indicating high grade mineralization intercepts the majority of these drillholes. Following are drillhole assays per ton for nine of the more significant drillholes:

Drillhole # 1: a 104 ft. intercept assaying at 21 ounces of silver, 640 pounds of lead and 80 pounds of zinc, including an 8 ft. segment assaying at 58 ounces of silver and 960 pounds of lead.

Drillhole # 2: a 55 ft. intercept assaying at 10 ounces of silver, 640 pounds of lead and 220 pounds of zinc, including a 17 ft. segment assaying at 16 ounces of silver and 660 pounds of lead.

Drillhole # 6: a 26.5 ft. intercept assaying at 3.5 ounces of silver, 85 pounds of lead and 209 pounds of zinc.

Drillhole # 13: a 24 ft. intercept assaying at 48.4 ounces of silver, 260 pounds of lead and 130 pounds of zinc, including a 14 ft. segment assaying at 74.7 ounces of silver, 336



pounds of lead and 180 pounds of zinc.

Drillhole # 17: a 96 ft. intercept assaying at 7.4 ounces of silver, 156 pounds of lead and 68 pounds of zinc, including a 21 ft. segment assaying at 15.5 ounces of silver, 306 pounds of lead and 72 pounds of zinc.

Drillhole # 18: a 26 ft. intercept assaying at 13.1 ounces of silver, 289 pounds of lead and 115 pounds of zinc, including a 3.5 ft. segment assaying at 70 ounces of silver, 496 pounds of lead and 194 pounds of zinc.

Drillhole # 19: a 9 ft. intercept assaying at 26.3 ounces of silver.

Drillhole # 20: a 92 ft. intercept assaying at 18.8 ounces of silver, 376 pounds of lead and 133 pounds of zinc, including an 11 ft. segment assaying at 90 ounces of silver, 843 pounds of lead and 98 pounds of zinc.

Drillhole # 22: a 152.5 ft. intercept assaying at 17.2 ounces of silver and 218 pounds of lead, including an 8.3 ft. segment assaying at 84 ounces of silver and 774 pounds of lead.

Registrant anticipates that the underground drilling program will be completed in the second quarter of 1996. If the Operating Agreement is signed during the second quarter of 1996, as registrant now anticipates, the EastTintic LLC to be formed as a result thereof will continue with the development work at the Burgin Mine, including calculation of additional new proven and probable ore reserves taking into account the results of registrant's underground drilling program. See Item 1. "Description of Business.-Operating Agreement." If, for any reason, the Operating Agreement is not signed, then in such event registrant will proceed on its own to complete development work. See Item 6. "Management's Discussion and Analysis or Plan of Operation.-PLAN OF OPERATION- Registrant's Alternative Plans If Operating Agreement Not Signed."

#### *Physical Condition Of The Burgin Mine.*

While Kennecott was lessee of the Burgin Mine, it had expended significant monies for capital improvements at the Mine, such as the building of a concentrating mill, three headframes and hoists, three mine shafts and underground workings, including the Apex number 2 shaft that is currently being utilized by registrant in its underground reserve expansion drilling program. When Sunshine succeeded Kennecott as lessee of the Burgin Mine, Sunshine expended funds in the further development of the Mine. As a result of the termination in 1992 of registrant's Burgin Lease with Sunshine and the Unit Lease, all of the assets and improvements built by Kennecott and Sunshine at the Burgin Mine, became the property of registrant, with registrant also receiving certain real property, equipment and other personal property from Sunshine. Registrant estimates that the cost of renovating the concentrating mill will be approximately \$7 million, but that if the Registrant had to completely build a similar facility, the replacement cost would be over \$30



million. Rehabilitation of the operating shafts of the Burgin Mine has been in progress since the beginning of 1995, with registrant expending funds for that purpose in addition to the underground drilling program. At such time as a mining plan is adopted, rehabilitation of the concentrator and the additional improvements to the property will be completed in preparation for mining, subject to financing of same. If the Operating Agreement is signed, such rehabilitation and improvements would be provided for under a budget of East Tintic LLC. See Item 1. "Description of Business.-Operating Agreement."

*Registrant's Properties After East Tintic LLC Formed.*

The signing of the Operating Agreement and the transfer by registrant of title to its East Tintic Mining District properties, including the Burgin Mine, to East Tintic LLC will not affect registrant's continuing ownership of its Main Tintic Mining District properties. See "Acreage Owned And Location." and "Main Tintic Mining District Properties.", above.

*Property To Be Received From South Standard.*

See Item 1. "Description Of Business. - Proposed Merger Of South Standard Into Registrant. South Standard owns 2,554 acres of patented mining properties in the East Tintic mining District contiguous with registrant's Burgin Mine. See "Leasing History Of Burgin Mine.", above, for information concerning South Standard's participation with registrant as lessors in the Unit Lease to Kennecott, and subsequently with Sunshine, until the Unit Lease was terminated in 1992. Under the terms of an agreement between registrant and South Standard, each will continue to retain their respective interests in royalties from the properties formerly under the Unit Lease until at least August 29, 2006. If the Merger of South Standard into registrant is consummated, registrant will receive all of South Standard's mining properties. If the Operating Agreement is signed, registrant will then transfer those mining properties received from South Standard to East Tintic LLC as an additional capital contribution , and the agreement relating to royalties will be canceled. See Item 1. "Description of Business.-Operating Agreement.-Registrant's Contribution Of Additional Capital."

The Trixie Mine is South Standard's principal mining property. As previously reported by South Standard, since production started from the Trixie Mine in 1969 and through 1992, 713,478 tons of ore have been mined containing an average per ton grade of 0.21 ounces of gold per ton and 6.55 ounces of silver, for a total of 150,048 ounces of gold and 4,670,289 ounces of silver. There has been no production of ore from the Trixie Mine since 1992, the year that Sunshine terminated the Unit Lease.



Item 3. Legal Proceedings.

None

Item 4. Submission of Matters to a Vote of Security Holders.

A Special Meeting in Lieu of Annual Meeting of registrant's shareholders was held on December 6, 1995. The proposals voted upon at the meeting and the results of such voting were as follows:

- (1) Election of directors to serve for the ensuing year and until their successors are duly elected and qualified. Management's slate of Directors was elected at the meeting:

Management's Slate of Directors Elected: <u>Name of Directors</u>	<u>Votes Cast For*</u>	<u>Votes Withheld- Individuals</u>	<u>Broker Non-Votes</u>
Leonard Weitz	3,899,338	4,568	650,462
James Callery	3,899,338	4,568	650,462
Paul Hines	3,899,338	4,568	640,462
A. Paul Mogensen	3,898,906	4,686	640,462
Edward R. Schwartz	3,898,906	4,686	640,462

(\*Cumulative voting for Directors)

- (2) Proposal to approve the selection of the firm of Arthur Andersen LLP as independent auditors for registrant for 1996. Proposal (2) was approved by shareholders at the meeting:

<u>Votes Cast For**</u>	<u>Votes Against</u>	<u>Abstentions Individuals</u>	<u>Brokers Non-Votes</u>
3,949,064	1,546	-	596,887

The affirmative vote of the majority of shares represented at the meeting was required to approve Proposal 2.



## PART II

### Item 5. Market for Common Equity and Related Shareholder Matters.

The principal markets on which registrant's shares of common stock are traded are the NASDAQ Small-Cap Market under the symbol CFCM and the Pacific Stock Exchange under symbol CFC.

High and low sales prices of registrant's common stock on the Pacific Stock Exchange for each quarterly period during the past two years are as follows:

<u>1995 Market Price</u>	<u>High</u>	<u>Low</u>
First Quarter.....	9-1/4	4-3/4
Second Quarter.....	8	7
Third Quarter.....	8-1/8	6-3/4
Fourth Quarter.....	11-3/8	7
 <u>1994 Market Price</u>	 <u>High</u>	 <u>Low</u>
First Quarter.....	4-3/4	3-1/2
Second Quarter.....	4-3/8	3-3/8
Third Quarter.....	5-1/2	3-1/2
Fourth Quarter.....	6-7/8	4-7/8

Approximate number of holders of record of registrant's common stock as of March 15, 1996 - 2,100.

No cash dividends were declared during the years 1994 and 1995.

### Item 6. Management's Discussion And Analysis Or Plan Of Operation.

#### (a) PLAN OF OPERATION.

Registrant had no revenues from mining operations during the year 1995 or during the period January 1, 1996 to March 15, 1996. Registrant's revenues in 1995 consisted of \$1,618 in royalties and \$88,772 of revenues from real estate sales, interest and miscellaneous sources. Registrant's revenues in 1995 consisted of \$4,555 in royalties and \$71,561 from real estate sales, interest and other sources.

Registrant's net loss for 1995 was \$1,183,798 compared to a net loss of \$992,001 for 1994. The increase of \$191,797 in the loss for 1995 as compared to 1994 was due to increased overhead expenditures related to the development of the Burgin orebody in 1995.



### *Overall Plan.*

If the Operating Agreement is signed, registrant will be transferring its 8,700 acre East Tintic District Mining Properties to East Tintic LLC in exchange for a 50% membership interest in East Tintic LLC. See Item 1. "Description of Business. - Operating Agreement," and Item 2. "Description of Properties. - East Tintic Mining District Properties." and "Creation of East Tintic LLC.", below. In such event, registrant will also proceed with its exploration and development project for the Plutus Mine area that is part of the 6,000 acre Main Tintic Mining District that will not be transferred. See Item 2. "Description of Properties. - Main Tintic Mining District Properties." and "Registrant's Plutus Mine Area Project.", below.

If the Operating Agreement is not signed, then in such event registrant will retain all its properties and it will either proceed with its Burgin Mine development work on its own or seek a new joint venture partner to participate in such development work. See "Registrant's Alternative Plans If Operating Agreement Not Signed.", below.

### *Creation of East Tintic LLC.*

If the Operating Agreement is signed during the second quarter of 1996, as presently anticipated by registrant, East Tintic LLC, a Colorado limited liability company, will be formed by its members. Registrant will transfer its East Tintic Mining District properties to East Tintic LLC, subject to the condition that Akiko and Korea Zinc's Subsidiary complete their Initial Cash Contributions of \$6,000,000 to East Tintic LLC in the manner provided in the Operating Agreement. An operations director experienced in underground mining projects will be hired by East Tintic LLC to manage, direct and control operations of East Tintic LLC in accordance with programs and budgets approved by the members through a management committee and to implement the decisions of the members. Registrant anticipates that during the next twelve months, the members will adopt one or more programs and budgets that would include funding: the completion of registrant's current underground drilling programs; the computation of new expanded proven and probable ore reserves based upon results of the underground drilling program; the completion of a feasibility study which will take into account the expanded ore reserves; applications for permits from appropriate governmental authorities; further rehabilitation of shafts and other mine properties that will be owned by East Tintic LLC; obtaining reports relating to prospective financing of mining activities; and, conducting such other work and procedures deemed necessary by the members in connection with the development of the properties with a view towards the opening of the Burgin Mine. Funds to be used for the foregoing purposes over the next twelve months will be derived from a portion of the Initial Cash Contributions to be paid by Akiko and Korea Zinc's Subsidiary. See Item 1 - "Description of Business. - Operating Agreement."



### *Registrant's Plutus Mine Area Project.*

If the Operating Agreement is signed, registrant will nevertheless retain approximately 6,000 acres of its properties in the Main Tintic Mining District. Included in that acreage is an area known as the Plutus Mine. The properties encompassing the Plutus Mine had been acquired many years ago by registrant and had been operated by registrant until about forty years ago. The Mine produced 236,000 tons of ore containing 6.2 million ounces of silver, 9,500 ounces of gold, 42 million pounds of lead and 1.7 million pounds of copper.

In March, 1996, registrant hired Centennial Development Corporation to rehabilitate the number 2 shaft to access the Plutus Mine Area. This shaft was previously rehabilitated in 1984 by Asarco, Inc. ("Asarco") under a lease that was then in effect with registrant. Asarco had terminated its lease and surrendered the leased property back to registrant at the end of 1984 just before Asarco was to begin an extensive underground drilling program to explore a projected downward extension of the Plutus orebody. Asarco's abrupt termination of its Main Tintic Mining District lease was, to registrant's knowledge, due to an overall corporate policy adopted by Asarco at that time to terminate new exploration projects. Asarco had spent in excess of \$2,000,000 during the five years that Asarco worked its Plutus Mine project.

After completion of repair work required on the number 2 shaft and drifts, registrant will begin an underground drilling program which will closely follow Asarco's drilling plans to explore the projected extensions of the Plutus orebody. The Plutus Mine has no current known ore reserves. Funds for the project to be conducted by registrant at its Plutus Mine properties will be derived from registrant's current cash position and, if appropriate, from financing through the sale of registrant's stock or other means. Registrant may also seek a joint venture partner if the circumstances warrant.

### *Registrant's Underground Drilling Program Results.*

If the Operating Agreement is not signed and registrant thus retains all its properties, registrant will, during the next twelve months, utilize the results of its underground drilling program at the Burgin Mine for registrant's own benefit. See Item 2. "Description of Properties" - Current Underground Drilling Program At Burgin Mine." That would include activities by registrant to complete the underground drilling program, compute expanded proven and probable ore reserves of the Burgin orebody, obtain a feasibility study with respect to the expanded reserves, and other activities related to the development of the Burgin Mine. The amount of funds that will be available to registrant will determine the extent to which registrant will be able to accomplish these goals over the next twelve months. See "Registrant's Alternative Plans If Operating Agreement Not Signed", below.



*Registrant's Alternative Plans If Operating Agreement Not Signed.*

If the operating agreement is not signed, registrant's primary objective will be to continue the development work at its Burgin Mine that was started by registrant in January, 1995. See Item 2. "Description of Properties. - Current Underground Drilling Program at Burgin Mine." and "Registrant's Underground Drilling Program Results", above. In such event and in order to accomplish the foregoing, registrant will, in addition to using its own cash funds, seek to raise additional funds through the sale of its common stock and/or through other financing means. Registrant will also, in such event, seek to enter into a joint venture arrangement with a major mining company. No estimate can now be made as to the amount of funding that will be available or whether a joint venture partner can be obtained. Since the further development of the Burgin Mine will be the primary goal of registrant if the Operating Agreement is not signed, it is likely that further work on the Plutus Mine project will be delayed until sufficient funding is available or registrant enters into a joint venture with another mining company for the Plutus Mine project.

Item 7. Financial Statements.

The Financial Statements of Registrant are filed pursuant to this item of the report. See index to Financial Statements.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

On September 1, 1994, registrant received a letter from Deloitte & Touche LLP ("Deloitte"), registrant's former accountant, confirming that the client-auditor relationship had ceased. The termination of the relationship arose after registrant had requested a reduction in the amount billed to registrant for the audit covering the fiscal year ended December 31, 1993. Registrant had also indicated its desire to agree in advance upon a fee for the audit covering the fiscal year ended December 31, 1994. Deloitte advised registrant that Deloitte would be unable to comply with registrant's fee proposal. As a result, registrant received from Deloitte the latter's September 1, 1994 letter hereinabove referred to confirming the cessation of the client-auditor relationship.

The cessation of the client-auditor relationship between registrant and Deloitte was due to a fee dispute. The decision to attempt to negotiate fees with Deloitte was not made by the Board of Directors of registrant, but was an operating decision made by the officers of registrant.

Prior to the date the client-auditor relationship ceased, there were no disagreements between registrant and Deloitte on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.



On or about October 1, 1994, registrant retained Arthur Andersen LLP as its independent public accountant. On December 6, 1994, and again on December 6, 1995, registrant's shareholders ratified the appointment of Arthur Andersen LLP as registrant's independent public accountant.

### PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act.

The name and age of each of the registrant's directors and executive officers and the positions and offices with the registrant held by him are:

<u>Name of Registrant's Directors and Executive Officers</u>	<u>Age</u>	<u>Offices with Registrant</u>	<u>Term During Which Served in Office</u>
Leonard Weitz (1)	66	Director; Chairman of the Board and Chief Executive Officer	Director since 1967.
A. Paul Mogensen (1)	62	Director; President and Chief Operating Officer	Director since 1993.
Edward R. Schwartz(1)	85	Director; Secretary-Treasurer	Director since 1974.
James Callery(1)	58	Director	Director since 1980.
Paul Hines(1)	58	Director	Director since 1994.

- (1) Elected to serve as a director for the ensuing year and until his successor is duly elected and qualified at the meeting of shareholders held on December 6, 1995.



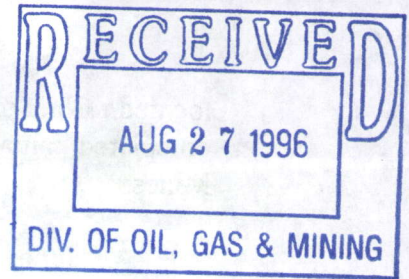
The following is a brief account of the business experience during the past five years of each director and executive officer named above:

Leonard Weitz	Chairman and Chief Executive Officer of registrant since 1971. (Also President from 1971 to December 1993.)
A. Paul Mogensen	President and Chief Operating Officer of registrant since January, 1994. Geologist employed in management position at Goldfield Mining Company from prior to 1990 to February, 1992; (General Manager North American Exploration from 1990 to February, 1992); independent mining and geological consultant from March, 1992 to December, 1993.
Edward R. Schwartz	Secretary and Treasurer of registrant since 1979; independent consultant since prior to 1990.
James Callery	Engaged in management of oil and gas, forestry, agriculture and other investments since prior to 1990.
Paul Hines	Chief Financial Officer and Director of Purotech International Inc., a water purification company, since 1993; Managing Director of The Leadership Group, consultants to management, from 1991 to 1992; Chief Financial Officer and Director of Devon Capital Management, an institutional real estate advisory firm, from 1989 to 1990.

Registrant is not aware of any person who, at any time during the year 1995 was a director, officer or beneficial owner of more than 10 percent of Registrant's common stock who failed to file on a timely basis, reports required by Section 16(a) during 1995 or prior years.



## PRESIDENT'S LETTER TO SHAREHOLDERS



To Chief Shareholders:

### *Introduction*

The strategic goal of your Company's management continues to be to develop and bring into production on its own, or through joint venture interests, five operating mines located in separate areas on Chief's thirty square miles of mining properties in the Tintic Mining District of Utah.

Although Chief, up to this time, has been a relatively small player in the mining business, your Company is now in a strong position that can enable it to become a major force in the United States mining industry by capitalizing on the tens of millions of dollars poured into Chief's properties over the past several years by major mining companies prior to the termination of their leases. The objectives of these companies were never fulfilled, because of poor economic results from other producing mines, primarily due to low prevailing metals prices, which restricted or terminated further investment in your Company's properties.

### *Recent Events*

Highly significant events have taken place over the past ninety days that represent major steps towards your management achieving its goal. On July 29, 1996, Chief announced the signing of a joint venture agreement under which Chief will transfer 9,000 acres representing approximately one-half of its property holdings in the Tintic District, in exchange for a 50% interest in the joint venture operating company (Tintic Utah Metals LLC). Subsidiary companies of Korea Zinc, Ltd. of Seoul, South Korea and Akiko Gold Resources Ltd. will each earn a 25% joint venture interest upon their paying a total of \$10 million towards the joint venture. The initial \$4 million was previously paid to Chief for stock purchases and has been utilized by Chief to delineate and expand the silver, lead and zinc reserves of the Burgin Mine located on joint venture property. The remaining \$6 million is to be paid into the joint venture by the Korea Zinc and Akiko subsidiaries based upon ongoing mining budgets.

Korea Zinc is a major international smelting company of lead and zinc ores and has recently further expanded its smelting capacity by its purchase of the Big River Smelter in Sauget, Illinois for \$52.5 million. As reported, Korea Zinc currently produces 3% of world and 10% of Asian zinc production and 2% of world and 10% of Asian lead production as well as producing significant amounts of gold and silver. Under the joint venture agreement, Korea Zinc has agreed to process Burgin Mine ore production.

On June 24, 1996, Chief announced that the shareholders of South Standard Mining Company approved the merger of South Standard into Chief Gold Mines Inc., a wholly owned subsidiary of your Company. The property acquired by way of the merger is comprised of 2,550 acres on which both the Trixie and Eureka Standard Mines are



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located. Chief plans to reopen the Trixie production shaft in September, 1996 and, when completed, initiate underground drilling programs in both the Trixie and Eureka Standard Mines.

In June, 1996, your Company completed the rehabilitation of the Chief #2 shaft, thereby gaining access to its Plutus Mine. The clean-up of the drifts leading into the Plutus orebody area is expected to be completed by the end of August, 1996, which will be followed by the implementation of the down dip underground drilling program originally planned but never fulfilled by Asarco, Inc.

### *Five Mining Projects Outlined*

With these recent events in mind, following are the five specific mining projects that will be pursued aggressively by your Company and the Joint Venture:

1. **Burgin Mine** (silver-lead-zinc): included in the joint venture.

The Burgin was constructed and mined for eleven years by Kennecott Corporation until 1978; rehabilitated by Sunshine Mining Company during the 1980's with significant reserves delineated by Sunshine in 1987; never actually mined by Sunshine; the Burgin was returned to Chief in November, 1992 upon termination of the lease.

Prior Burgin production by Kennecott: 1,870,218 tons of ore producing 11 million ounces of silver, 338 million pounds of lead, 349 million pounds of zinc and 1 million pounds of cadmium (value of metals produced at current metals prices: \$ 420 million).

2. **Trixie Mine** (gold-silver): subject to an option for inclusion in the joint venture in 1998, conditioned upon the reimbursement to Chief by the joint venture of all acquisition, maintenance, exploration, development and mining costs incurred by Chief, net of income received.

The Trixie Mine was constructed and mined by Kennecott in the 1970's with assays from the highest grade areas running as high as 30 ounces of gold and 40 ounces of silver per ton; further developed and mined by Sunshine when it purchased lease from Kennecott until it was returned to South Standard in November, 1992, upon termination of lease; acquired by Chief's subsidiary on June 28, 1996 as a result of South Standard being merged into Chief Gold Mines.

Prior Trixie Mine production by Kennecott and Sunshine: 713,478 tons of ore producing 150,048 ounces of gold and 4,670,289 ounces of silver (value of metals produced at current metals prices: \$ 82 million).

3. **Plutus Mine** (silver-gold-lead-copper): not included in joint venture.



The Plutus Mine was constructed and mined by Plutus Mining Company; subsequently acquired by Chief through merger and mined by Chief; subsequently closed by Chief in 1957 due to lack of a smelter outlet for Plutus ores; rehabilitated in 1984 by Asarco; returned to Chief in December, 1984, upon lease termination; Chief #2 Shaft rehabilitation was begun by Chief in February, 1996, and completed in April. Plutus Mine underground rehabilitation was begun by Chief in April, 1996 with completion anticipated by August 31, 1996; an underground drilling program will begin in the Plutus orebody area in September, 1996.

Prior Plutus Mine production: 236,000 tons of ore producing 6.2 million ounces of silver, 9,500 ounces of gold, 42 million pounds of lead and 1.7 million pounds of copper (value of metals produced at current market prices: \$ 58 million).

**4. Eureka Standard Mine** (gold-silver-copper-lead-zinc): subject to an option for inclusion in the joint venture in 1998, conditioned on the reimbursement to Chief by the joint venture for all acquisition, maintenance, exploration, development and mining costs incurred by Chief, net of income received.

The Eureka Standard Mine was constructed and mined by Eureka Standard Mining Company; acquired in 1983 by South Standard through merger with Eureka Standard; Sunshine, under the lease it purchased from Kennecott, linked up the Trixie and Eureka Standard Mines in 1991; Sunshine continued drift rehabilitation and drill station construction through 1992 until the property was returned to South Standard in November, 1992, upon lease termination; acquired by Chief's subsidiary on June 28, 1996 as a result of South Standard being merged into Chief Gold Mines. The Eureka Standard Mine was the highest grade precious metal mine in the Tintic District until it was closed in 1970.

Prior production: 362,832 tons of ore producing 242,919 ounces of gold, 3,430,723 ounces of silver, 2,716,434 pounds of copper, 11,211,423 pounds of lead, and 3,496,852 pounds of zinc (value of metals produced at current metals prices: \$ 191.5 million).

**5. Copper Leaf Mine shaft** (Homansville gold surface drillhole discoveries by Kennecott).

The Copper Leaf shaft is located on Central Standard Consolidated Mining Company property ( 22 % stock ownership by Chief) in the Homansville area. Kennecott rehabilitated the Water Lily shaft to the north of the Copper Leaf shaft and in 1980 began drifting south toward the gold discovery area along the Homansville fault until later that year when the Water Lily shaft failed. Kennecott's plans to rehabilitate the Copper Leaf shaft to drift north toward the same area were never implemented. The Homansville area gold zone extends onto Chief properties both to the east and west of Central Standard's borders. This area of Chief's properties is included in the joint venture.

*not in  
Utah??*



There has been no prior production from the Homansville area.

### ***Additional Information on Burgin Mine***

Underground drilling at the Burgin Mine to date has increased Sunshine's estimated 1 million tons of reserves by over 50%. Independent estimates of current interim Burgin reserves are 1.5 million tons of mineable reserves and indicated reserve extensions, at a per ton average grade of 16.5 ounces of silver, 21% lead and 6.7% zinc. Reserve expansion underground drilling is continuing to the west, while additional drill stations are being constructed to extend reserve expansion drilling both north and south to further delineate the size of the Burgin orebody as it thrusts out in several directions.

At the projected initial production rate, the Burgin would produce annually from the main orebody approximately 270,000 tons of ore, producing annually in excess of 4.5 million ounces of silver, 100 million pounds of lead and 20 million pounds of zinc, after taking into account all losses in the mining, milling and smelting processes..

The importance of your Company's plans to rehabilitate the Trixie Shaft in terms of the Burgin Mine project cannot be over-emphasized. Plans are being made to drift the 130 feet necessary to connect the Burgin Mine with the Trixie and Eureka Standard Mines. Upon connection of the three Mines, two integrated shafts will be available for any production from not only the Trixie and Eureka Standard Mines, but also from the upper levels of the Burgin Mine above the water table.

In June, 1996, a new area of high grade silver mineralization was discovered on an upper level of the Burgin Mine, in a drift heading to the northwest towards a proposed new production shaft site. Samples from the mineralized zone assayed at an average of over 20 ounces of silver per ton in the waste rock with the highest grade samples from the mineralized zone assaying at up to 238 ounces of silver per ton. A drill station off the drift is now in the process of construction as a site for initial underground drilling to determine the extent and grade of the mineralization encountered in this area. This area's silver values are contained in a silica structure, unlike the galena of the main Burgin orebody, and concentrating the ore would not be necessary because, as is the case with Trixie Mine ore, it is valuable as a smelter fluxing agent with payments made for the contained silver and gold values.

### ***Development of Surface Real Estate Holdings***

Your Management is continuing its efforts to interest commercial or residential real estate developers in Chief's estimated 6,000 acres of buildable surface real estate in the Eureka Valley area of the District on both sides of Utah State Route 6. Approximately 80% of Chief's buildable real estate areas are located three to four miles



from the Burgin Mine on land wholly owned and controlled by your Company. The balance is located on properties included in the joint venture, however, Chief has retained surface real estate rights in this area. Recent sales to Eureka residents of small parcels constituting less than one acre have been based on a \$10,000 per acre selling price.

There has yet to be a sale of substantial acreage for residential or commercial construction. As the growth of Utah commercial and residential real estate continues to the south of Salt Lake City and Provo, sales of substantial acreage of your Company's holdings remain a significant potential source of future income. Surface real estate has a zero valuation on your Company's balance sheet.

### *Summary*

In 1996, your Company became an operating mining company through both its wholly owned mining assets and its 50% interest in the Tintic Utah Metals LLC joint venture. Subject to drilling results and subsequent successful ore development, it is projected that production from one or more mines, located in one or more areas, could begin in 1997. The future potential for earnings by your Company from the projects described above is highly significant to Chief shareholders, especially in view of the relatively small number of outstanding shares of Chief stock (approximately 6 million shares) compared with other mining companies, and in relation to the extent and magnitude of your Company's mining assets and interests.

Chief's thirty square miles of Tintic District mining and real estate properties are located in the United States. While many domestic mining companies are rushing to develop new projects outside of the United States, foreign companies who are more cognizant of geopolitical realities, are looking toward investing in the safety and security of assets located in the United States. If past history offers a clue to the future, offshore mining investments by domestic mining companies, especially in third world countries with governments currently perceived as "stable", may not prove to be as risk-free as some may envision.

Thank you for your continuing support and confidence in your Company's future.

A handwritten signature in dark ink, appearing to read "Leonard Weitz", with a long horizontal flourish extending to the right.

Leonard Weitz  
President and Chief Executive Officer  
August 12, 1996



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## Chief Consolidated Mining Company 1995 Form 10-KSB Report

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This report to shareholders includes a complete copy of Chief Consolidated Mining Company's 1995 Form 10-KSB Annual Report to the Securities and Exchange Commission which contains among other information, a description of the Corporation's business, a discussion and analysis of financial condition and results of operations and financial statements. The Form 10-KSB report is included because of the similarity of the information required to be contained in the annual reports to shareholders and to the Securities and Exchange Commission, and in the interest of providing broad disclosure of the activities of Chief to those interested in its affairs. The report on Form 10-KSB has been neither approved nor disapproved by the Securities and Exchange Commission nor has the SEC passed upon its accuracy or adequacy.

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price equal to the market price of the common stock on the date of issuance.

#### (4) STOCK OPTIONS

##### Incentive Stock Options

In June 1982, the shareholders approved an Incentive Stock Option Plan (the "Plan") for key employees which provided for the Board of Directors to grant options to purchase up to 100,000 shares of the Company's common stock. The Plan expired in June 1992; however, 75,000 stock options issued under the Plan remained in effect. The exercise price for the shares under option is 100 percent of the market price of the stock at the date of grant.

During the year ended December 31, 1995, the Company loaned an officer and an employee \$50,000 and \$37,500, respectively, to facilitate their exercise of stock options. The issuance of the loan to the employee created a new measurement date for financial reporting purposes. The Company has recorded deferred compensation of \$75,000 (the difference between the market value of the stock and exercise price of the options on the date the loan was issued) in the accompanying 1995 Statement of Stockholders' Equity. The deferred compensation is being amortized over the three-year life of the note receivable. During the year ended December 31, 1995, \$3,726 of expense related to the amortization of the deferred compensation was recognized in the accompanying Statement of Operations.

During the year ended December 31, 1995, two officers and an employee exercised a total of 75,000 options at exercise prices of \$2.50 per share.

As of December 31, 1995, no incentive stock options remained outstanding under the Plan.

##### Nonqualified Stock Options

The shareholders have approved the issuance of nonqualified stock options to officers, directors and a key employee. The nonqualified options must be exercised within ten years from the date of grant. The options are forfeited if the optionee ceases to be a director of the Company (or a key employee in the case of a nondirector). The following table presents the aggregate number of nonqualified stock options granted and forfeited during the years ended December 31, 1995 and 1994.

	<u>1995</u>	<u>1994</u>
Shares under option, beginning of year	320,000	135,000
Options granted (at exercise prices of \$3.50 per share)	-	210,000
Options forfeited (at an exercise price of \$4.38 per share)	-	(25,000)
Shares under option, end of year	320,000	320,000
	=====	=====



During 1995, the Board of Directors granted, subject to shareholder approval, nonqualified stock options for the purchase of 160,000 shares of common stock to certain officers and directors of the Company. These options have an exercise price of \$6.94 per share (which was the market price on the date of grant) and expire on December 5, 2005.

At December 31, 1995, all outstanding nonqualified options for the purchase of common stock were exercisable. The options expire at various dates from December 2003 to September 2004 and are exercisable at an exercise price of \$3.50 per share. The Company recognized a noncash charge of \$341,250 in the 1994 Statement of Operations in connection with the granting of options to purchase 210,000 shares of its common stock as the option price was below the market price on the date of grant.

In 1994, the stockholders approved the replacement of 110,000 nonqualified options for the purchase of common stock that had previously been granted to certain officers and directors of the Company. The original options had exercise prices ranging from \$5.125 to \$5.625 per share and expiration dates ranging from May 1995 to May 1996. The replacement options have an exercise price of \$3.50 (which was the market price on the date of grant) and expire on December 10, 2003.

#### Other Stock Options

In addition to the incentive and nonqualified stock options referred to above, the Company has granted stock options to investors at various times. During the year ended December 31, 1995, options for the purchase of 105,000 shares of common stock were exercised at an exercise price of \$5.46 per share. Additionally, 100,000 options were forfeited during the year. At December 31, 1995, options for the purchase of 394,300 shares of common stock by investors were outstanding and exercisable. The options are exercisable at prices ranging from \$3.00 to \$9.52 per share and expire at various dates from March 1996 to September 1997.

#### (5) INCOME TAXES

The income tax provisions for 1995 and 1994 differ from the amounts computed by applying the statutory federal income tax rate to the loss before provision for income taxes as follows:

	<u>1995</u>	<u>1994</u>
Statutory federal income tax rate	(35.0)%	(35.0)%
State income taxes, net of federal benefit	(3.3)%	(3.3)%
Nondeductible expenses	- %	0.2 %
Valuation allowance	38.3 %	38.1 %
	-----	-----
Effective income tax rate	- %	- %
	=====	=====



The tax effects of temporary differences and the related valuation allowance against the deferred income tax asset as of December 31, 1995 were as follows:

Deferred income tax assets:	
Net operating loss carryforward	\$2,395,973
Future deductible expenses related to issuance of common stock options	140,390
Other	1,836
	-----
Total deferred income tax assets	2,538,199
Valuation allowance	(2,010,429)
	-----
Deferred income tax assets, net of valuation allowance	527,770
Deferred income tax liability:	
Tax over book depreciation	(6,228)
Amortization of development costs	(521,542)
	-----
Net deferred income taxes	\$ -
	=====

The Company has net operating loss carryforwards ("NOLs") for federal tax reporting purposes of \$6,263,982. The NOLs expire as follows:

<u>Year of Expiration</u>	<u>Amount</u>
1996	\$ 78,095
1997	161,465
1998	245,953
1999	192,858
2000	219,329
2001	188,990
2002	133,291
2003	204,917
2004	510,052
2005	256,031
2006	166,855
2007	725,358
2008	929,998
2009	2,250,790
	-----
	\$6,263,982
	=====

(6) RELATED-PARTY TRANSACTIONS

As discussed in Note 4, the Company loaned \$50,000 to an officer and \$37,500 to an employee who are also shareholders of the Company. The loan to the officer bears interest at the prime rate (8.5 percent at December 31, 1995) and interest is payable quarterly. The loan to the employee is non-interest bearing. The principal balance of both notes receivable is due on November 7, 1998. These notes receivable are secured by certain shares of the Company's common stock.



(7) COMMITMENTS AND CONTINGENCIES

Environmental Matters

Prior to 1993, the Company leased its mining properties to other companies for operation, exploration and development. Under the terms of the leases, these other companies were obligated to comply with all federal, state and local environmental laws and regulations affecting the mining industry. Management is not aware of any current environmental contamination and clean-up costs related to its mining properties for which the Company may be considered liable.

Under the Company's agreement with AKIKO and Korea Zinc, both the Company, AKIKO and Korea Zinc would become liable for environmental aspects of future operations on the proposed joint venture's properties. The Company will be required to apply for the necessary State of Utah permits ("permitting") in connection with various aspects of its development and future mining activities, including its plans for de-watering that portion of the Burgin ore body that is located beneath the water table. Since no final plans will be formulated until additional work and studies at the proposed joint venture properties have been completed, no assessment can be made at this time by the Company concerning potential issues that may be raised by the authorities regarding environmental laws on the permitting. No estimate of the costs associated with compliance with the permits or related laws and regulations can be made at this time.

Royalty Agreement with South Standard Mining Company

Under an agreement between the Company and South Standard Mining Company ("South Standard"), the Company's co-lessor under a previously terminated lease (the "Terminated Lease"), the proposed joint venture between the Company, AKIKO and Korea Zinc (See Note 1) will be obligated to pay South Standard 1.7 percent of the net smelter returns from its properties within the joint venture. Additionally, the Company is obligated to pay South Standard 22.33 percent of any future lease royalties from its properties that had been included in the Terminated Lease. South Standard is obligated to pay the Company 4.1 percent of the net smelter returns and 54.67 percent of any future lease royalties earned from its properties that had been included in the Terminated Lease.

Office Lease

The Company leased office space under a long-term, noncancelable operating lease until its expiration in April 1995. The Company anticipates renewing the lease for at least one additional year, but is presently operating under a month-to-month lease arrangement. Lease payments are \$1,554 per month. Total rent expense for office space was \$6,161 and \$18,654 in 1995 and 1994, respectively.

(8) MERGER WITH SOUTH STANDARD MINING COMPANY

On July 12, 1995, the Company and South Standard signed a letter of intent to merge South Standard with and into a wholly-owned subsidiary of the Company. An agreement and plan of merger was executed on September 20, 1995. South Standard shareholders are to receive 0.3 shares of the Company's common stock in exchange for each share of South Standard's common stock. As of December 31, 1995, South Standard



had 1,241,717 shares of common stock outstanding. The merger is contingent upon (i) approval of the merger by South Standard's shareholders, (ii) an effective registration statement filed with the Securities and Exchange Commission for the Company shares to be issued and blue-sky law compliance for such shares, and (iii) completion of the merger by June 30, 1996. The Company anticipates completing all required filings with the SEC and submitting the matter to the vote of South Standard's shareholders during the second quarter of 1996.



Item 10. Executive Compensation.

The following information is presented concerning the compensation of Leonard Weitz, Chairman and Chief Executive Officer of registrant, and A. Paul Mogensen, President and Chief Operating Officer of registrant, for each of registrant's last three completed fiscal years.

SUMMARY COMPENSATION TABLE

<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation Salary</u>	<u>Long-Term Compensation Awards-Options</u>	<u>All Other Compensation</u>
Leonard Weitz (Chairman and Chief Executive Officer; also President 1992 & 1993)	1995	\$125,000(1)	(2)	\$50,000 (3)
	1994	\$125,000(1)		
	1993	\$125,000(1)		
A. Paul Mogensen (President and Chief Operating Officer 1994 and 1995; consultant in 1993)	1995	\$118,845(4)	(7)	-
	1994	\$ 77,157(5)		
	1993	\$ 8,808(6)		

(1) Mr. Weitz is employed by registrant through September 30, 1996 under an employment agreement dated January 4, 1988. Mr. Weitz continues to serve as Chairman and Chief Executive Officer of registrant under his employment agreement. Mr. Weitz had also served as President of registrant through December, 1993. Mr. Weitz will receive a base salary of \$125,000 during the remainder of his employment agreement, pro-rated through September 30, 1996. In addition to his annual base salary, Mr. Weitz will be entitled under his employment agreement to incentive compensation equal to 2% of registrant's pre-tax earnings in excess of \$1,000,000 (exclusive of extraordinary items and sales of property) during 1996 on a pro-rated basis; however, incentive compensation may not exceed the amount of his base salary for the subject period. Mr. Weitz may also receive during the term of his employment such bonuses as may be determined by registrant's Board of Directors. Registrant anticipates that a new employment agreement to be effective October 1, 1996 will be entered into with Mr. Weitz, however the terms of such employment agreement have not yet been determined.

(2) See "Option Exercises During Fiscal Year Ended December 31, 1995 and Option Values on December 31, 1995, " below.



(3) On September 20, 1995, the Board of Directors of registrant awarded a \$50,000 bonus payment to Mr. Weitz on the condition that Korea Zinc Co., Ltd. consummate by September 30, 1995 its purchase of 500,000 shares of registrant's common stock. The Board also approved on September 20, 1995 a \$50,000 three-year loan to Mr. Weitz, the loan to bear interest at the prime rate, adjustable quarterly. Said stock purchase was timely made by Korea Zinc Co., Ltd. See "Voting Securities and Principal Stockholders", above. The award of the bonus and approval of the loan were made by the Board of Directors to Mr. Weitz based upon his indication to the Board of Directors that he intended to exercise his incentive stock option to purchase 40,000 shares of registrant's common stock by November 14, 1995. See "Option Exercises During Fiscal Year Ended December 31, 1995 and Option Values on December 31, 1995", below. Mr. Weitz exercised the option on November 10, 1995 and purchased the 40,000 shares of registrant's common stock.

(4) Comprised of cash compensation of \$99,512 and 3,000 shares of registrant's common stock received as compensation and having a market value of \$19,313 on the dates of issuance. See Item 10. "Executive Compensation - Compensation of Directors".

(5) Comprised of cash compensation of \$6,250 and 14,500 shares of registrant's common stock received as compensation and having a market value of \$70,907 on the dates of issuance. See Item 10. "Executive Compensation - Compensation of Directors".

(6) Consulting fees received in 1993 prior to becoming an officer.

(7) See "Option Grants During Fiscal Year Ended December 31, 1995", below.

#### **OPTION GRANTS DURING FISCAL YEAR ENDED DECEMBER 31, 1995**

On December 6, 1995, registrant's Board of Directors granted, subject to shareholder approval, nonqualified options to purchase 40,000 shares to each of the following four directors and officers of registrant: James Callery, Paul Hines, A. Paul Mogensen and Edward R. Schwartz, at an exercise price of \$6.9375 per share, exercisable over a ten year period so long as the optionee remained a director or officer. The exercise price is based upon the mean market price of the shares on December 6, 1995. Shareholder approval has not yet been obtained for these options to purchase a total of 160,000 shares. Registrant anticipates that the shareholders will be requested to approve the terms of the said options at a shareholders meeting to be held in 1996. Since Arizona law requires that the shareholders approve any option granted to a director or officer, the action taken by the Board of Directors on December 6, 1995 did not create outstanding options for 160,000 shares as at December 31, 1995. If the shareholders do not approve the options, the December 6, 1995 grant by the Board will be of no force and effect.



**OPTION EXERCISES DURING FISCAL YEAR  
ENDED DECEMBER 31, 1995 AND OPTION VALUES  
ON DECEMBER 31, 1995**

The following table contains, with respect to stock options held by Leonard Weitz and A. Paul Mogensen, information as to option exercises during the year 1995, the aggregate dollar value realized upon exercise, the total number of unexercised options held on December 31, 1995 and the aggregate dollar value of the in-the-money, unexercised options held on December 31, 1995.

Name	Shares Acquired or Exercised	Value Realized	Number of Unexercised Options at December 31, 1995(1)	Value of Unexercised in-the-money options at December 31, 1995(4)
<i><u>Nonqualified:</u></i>				
Leonard Weitz	None	None	60,000(2)	\$450,000
A. Paul Mogensen	None	None	60,000(2)	\$450,000
<i><u>Incentive:</u></i>				
Leonard Weitz	40,000(3)	\$205,000	<u>None</u>	
Totals:			120,000	

- (1) All options held are fully exercisable.
- (2) Nonqualified stock options approved by shareholders.
- (3) Incentive Stock Options under registrant's Incentive Stock Option Plan.
- (4) Values are calculated by subtracting the exercise price from the closing price of the registrant's common stock on NASDAQ on December 31, 1995.

**Compensation of Directors**

Leonard Weitz, Chairman of the Board and Chief Executive Officer of registrant, is employed through September 30, 1996 under an employment agreement dated January 4, 1988. See "Executive Compensation - Summary Compensation Table", above, for further details concerning Mr. Weitz's employment agreement.

A. Paul Mogensen, a director, is employed by registrant as President and Chief Operating Officer. The arrangement that was in effect with Mr. Mogensen with respect to services rendered by him to registrant during the year 1994 and the first quarter of 1995 was that his total compensation was to be based upon time spent on registrant's business in his capacity as an officer of registrant, and that he could elect to receive such compensation all or partly in registrant's stock. No projection can be made at this time by registrant as to the total amount of compensation Mr. Mogensen will receive during the year 1996. To the extent Mr. Mogensen elected to take stock and for the purpose of



determining the number of shares to be issued to him, the shares were valued at \$3.50 per share for shares issued to him for 1994 and for the month of January, 1995 and \$5.625 for shares issued to him for the month of February, 1995. Mr. Mogensen's overall compensation was thus increased to the extent that the market price for his shares on the date of issuance exceeded the above per share values. Such arrangements for the issuance of shares in payment of compensation was terminated effective March 1, 1995, and since said date, Mr. Mogensen's compensation is solely in cash. See "Executive Compensation - Summary Compensation Table", above, for further details concerning the amounts of compensation received by Mr. Mogensen as an officer of registrant in 1994 and 1995.

Each director who is not an officer of registrant receives an annual retainer of \$1,200 and an attendance fee of \$100 for each board meeting attended. Edward R. Schwartz, the Secretary-Treasurer of registrant, who is a director, does not receive a salary; he receives fees at twice the rate as directors who are not officers of registrant.

Item 11. Security Ownership of Certain Beneficial Owners and Management.

- (a) The following table shows as of March 15, 1996, stock ownership of all persons known to management, to be beneficial owners of more than 5% of the common stock of the registrant.

<u>Name and Address of Beneficial Owners</u>	<u>Amount of Nature of Beneficial Ownership</u>	<u>Percentage of Class</u>
Korea Zinc Co., Ltd. 142 Nonnyon-Dong, Gangnam-Ku Seoul, Korea	500,000 shares	9.1%
AKIKO Gold Resources Ltd. 1800 Glenarm Place, Suite 210 Denver, Colorado 80202	268,000 shares	4.9%



- (b) The equity securities of the registrant beneficially owned by all directors and officers and by directors and officers of the registrant as a group, as of March 15, 1996, are:

<u>Title of Class</u>	<u>Name &amp; Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership*</u>	<u>Percent of Class</u>
Common Stock, \$0.50 par value:	James Callery RD #2, Box 2750 Charlotte, Vermont 05445	108,468(1)(2)	2.0%
	Paul Hines 12 Flying Cloud Rd. Stamford, Connecticut 06902	65,000(3)	1.2 %
	A. Paul Mogensen 28757 Clover Lane Evergreen, Colorado 80439	80,000(4)	1.5%
	Edward R. Schwartz 1165 Park Avenue New York, New York 10128	85,100(5)(6)	1.5%
	Leonard Weitz 11 Longview Lane Chappaqua, New York 10514	121,010(7)(8)	2.2%
	Owned by all directors and officers as a group	459,578(9)	6.6%
Preferred Stock, \$0.50 par value:	None		

\* Each director has sole voting and investment power with respect to shares owned.

(1) Does not include an aggregate of 10,500 shares owned by James Callery's wife and children, in which shares James Callery disclaims any beneficial interest.



- (2) Includes nonqualified stock options to purchase 60,000 shares held by James Callery.
- (3) Includes nonqualified stock options to purchase 60,000 shares held by Paul Hines.
- (4) Includes 2,500 shares owned jointly with A. Paul Mogensen's wife and nonqualified stock options to purchase 60,000 shares held by A. Paul Mogensen.
- (5) Does not include 200 shares owned by Edward R. Schwartz wife, in which shares Edward R. Schwartz disclaims any beneficial interest.
- (6) Includes nonqualified stock options to purchase 60,000 shares held by Edward R. Schwartz.
- (7) Does not include 18,000 shares owned by Leonard Weitz's wife, in which shares Leonard Weitz disclaims any beneficial interest.
- (8) Includes 40,000 shares owned jointly with Leonard Weitz's wife and nonqualified stock options to purchase 60,000 shares held by Leonard Weitz.
- (9) Includes options to purchase an aggregate of 300,000 shares as referred to at Notes (2), (3), (4), (6) and (8) above. Each of said options is exercisable by the optionee in whole or in part at any time until the expiration of the option.

Item 12. Certain Relationships and Related Transactions.

None

Item 13. Exhibits and Reports on Form 8-K.

(a) Description of Exhibits required to be filed by Item 601 of Regulation S-B

(The numbers shown below next to each exhibit are keyed to Exhibit Table of Item 601 of Regulation S-B)

"(2)" Not applicable

"(3)" Articles of Incorporation and By-Laws:

Registrant hereby incorporates by reference the Articles of Incorporation and By-Law previously filed with the Commission.

"(4)" Not applicable

"(9)" Not applicable



"(10)"      Material Contracts:

- A. AKIKO Agreement - (i) Agreement (in form of a Letter Agreement) dated March 11, 1994 between registrant and AKIKO Gold Resources Ltd. Registrant hereby incorporates by references said Letter Agreement with AKIKO dated March 11, 1994, copies of which were filed with the Commission by registrant as part of its 1993 Form 10-KSB Report.
- (ii) Amendment to AKIKO Agreement in form of a letter from registrant to AKIKO dated September 1, 1994. Registrant hereby incorporates by reference said letter dated September 1, 1994, copies of which were filed with the Commission by registrant as part of its 1994 Form 10-KSB Report.
- B. Sunshine Lease - Mining Lease and Agreement dated October 15, 1980 between registrant and Sunshine Mining Company: Registrant hereby incorporates by reference the Sunshine Lease Agreement dated October 15, 1980, copies of which were filed with the Commission by registrant as part of its Form 8-K Report dated October 22, 1980. The Sunshine Lease was terminated effective December 31, 1992. (See document "J" below.)
- C. Unit Lease - Leases and Unit Agreement of August 29, 1956 by and between registrant and other co-lessors, as lessors, and Bear Creek Mining Company, as Lessee.  
Amendments to Unit Lease:  
July 5, 1968  
January 1, 1972  
March 14, 1977  
June 16, 1978  
October 26, 1982  
Registrant hereby incorporates by reference the Unit Lease and each of the Amendments set forth above, copies of which were filed with the Commission by registrant as part of its 10-K Reports as follows:  
Amendments 1968 through 1978- 1980 10-K Report; October 26, 1982 Amendment - 1982 10-K Report. The Unit Lease was terminated effective December 31, 1992. (See document "I", below.)
- D. Agreement dated October 1, 1982 between registrant and its co-lessors under the Unit Lease. Registrant hereby incorporates by reference the said Agreement, a copy of which was filed with the Commission by registrant as part of its 1982 10-K Report.



- E. Agreement (signed by registrant March 25, 1983) between registrant, its co-lessors under the Unit Lease, and Kennecott. Registrant hereby incorporates by reference the said agreement, a copy of which was filed with the Commission by registrant as part of its 1983 10-K Report.
- F. Agreement (signed by Registrant on August 15, 1989) between registrant and South Standard, its co-lessor under the Unit Lease, a copy of which was filed with the Commission as part of its 1989 10-K Report.
- G. Amendment to agreement (signed by registrant on July 7, 1990) between registrant and South Standard, its co-lessor under the Unit Lease, a copy of which was filed with the Commission as part of its 1989 10-K Report.
- H. Agreement (signed by registrant on February 5, 1991) between registrant and North Lily Mining Company, a copy of which was filed with the Commission by registrant as part of its 1990 10-K Report.
- I. Agreement dated as of November 13, 1992 between HMC Mining Inc., Sunshine Precious Metals, Inc., and Sunshine Mining Company (collectively "Sunshine Group"), and Chief Consolidated Mining Company and South Standard Mining Company (with Exhibits annexed, except for those Exhibits previously filed by registrant with the Commission) a copy of which was filed with the Commission by registrant as part of its September 30, 1992 10-Q Report.
- J. Agreement dated as of November 13, 1992 between HMC Mining Inc., Sunshine Precious Metals, Inc., and Sunshine Mining Company (collectively "Sunshine Group"), and Chief Consolidated Mining Company (with Exhibits annexed, except for those Exhibits previously filed by registrant with the Commission) a copy of which was filed with the Commission by Registrant as part of its September 30, 1992 10-Q Report.
  - "(11)" Not applicable.
  - "(13)" 1995 Annual Report not yet furnished to security holders as of filing date of this Report.
  - "(16)" Letter from Deloitte & Touche LLP to registrant dated March 13, 1995. Registrant hereby incorporates by reference said letter dated March 13, 1995, copies of which were filed with the Commission by registrant as part of its 1994 Form 10-KSB Report.
  - "(18)" Not applicable.
  - "(21)" Not applicable.
  - "(22)" Not applicable.
  - "(23)" Not applicable.
  - "(24)" Not applicable.
  - "(27)" Not applicable.



"(28)" Not applicable.  
"(99)" Not applicable.  
(B) Reports filed on Form 8-K:  
None

### SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Chief Consolidated Mining Company  
(Registrant)

By /s/ Leonard Weitz

(Signature and Title)  
Leonard Weitz  
Chairman of the Board of Directors, and Chief Executive Officer

Date March 28, 1996

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By /s/ A. Paul Mogensen

(Signature and Title)  
A. Paul Mogensen  
Director, President and Chief Operating Officer

Date March 28, 1996

By /s/ Edward R. Schwartz

(Signature and Title)  
Edward R. Schwartz  
Director, Secretary and Treasurer, Principal Financial Officer and  
Principal Accounting Officer

Date March 28, 1996



By/s/ James Callery

(Signature and Title)

James Callery

Director

Date

March 28, 1996



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Schedules are omitted either because they are not required or because the required information is contained in the financial statements or notes thereto.



REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders  
of Chief Consolidated Mining Company:

We have audited the accompanying consolidated balance sheet of Chief Consolidated Mining Company (an Arizona corporation) and subsidiaries as of December 31, 1995 and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended December 31, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, a substantial portion of the assets of the Company consist of investments in mining claims and properties for which significant additional development costs must be incurred to bring any of these properties into operation. The realization of these investments is dependent upon the ability of the Company and/or its proposed joint venture partners to obtain the required capital to complete the development of the mining properties.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chief Consolidated Mining Company and subsidiaries as of December 31, 1995 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

*Arthur Andersen LLP*

Salt Lake City, Utah  
March 11, 1996



CHIEF CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1995

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	\$ 95,391
U.S. treasury bills, at cost which approximates market value	2,616,559
Accounts receivable	30,528
Other current assets	2,228
	-----
	2,744,706
	-----
INVESTMENT IN AFFILIATE	78,101
	-----
ADVANCES TO AFFILIATE	21,150
	-----
MINING CLAIMS AND PROPERTIES, less accumulated depletion of \$1,927,799	4,073,668
	-----
MACHINERY AND EQUIPMENT, less accumulated depreciation of \$23,579	116,921
	-----
OTHER ASSETS	11,022
	-----
	\$ 7,045,568
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:	
Accounts payable	\$ 201,382
Accrued liabilities	18,272
	-----
	219,654
	-----
MINORITY INTEREST	42,201
	-----
COMMITMENTS AND CONTINGENCIES (Note 7)	
SHAREHOLDERS' EQUITY:	
Preferred stock - nonassessable, authorized 1,500,000 shares, \$.50 par value; 5,200 shares outstanding	2,600
Common stock - nonassessable, authorized 20,000,000 shares, \$.50 par value; 5,457,035 shares issued; 5,440,594 shares outstanding	2,720,297
Additional paid-in capital	10,491,568
Deferred compensation	(71,274)
Notes receivable from shareholders	(87,500)
Accumulated deficit	(6,271,978)
	-----
Total shareholders' equity	6,783,713
	-----
	\$ 7,045,568
	=====

The accompanying notes to consolidated financial statements  
are an integral part of this consolidated balance sheet.



CHIEF CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	<u>1995</u>	<u>1994</u>
REVENUES:		
Royalties	\$ 1,618	\$ 4,555
Interest	70,825	32,226
Other	17,947	39,335
	-----	-----
	90,390	76,116
	-----	-----
EXPENSES:		
General and administrative	486,842	375,492
Other operating costs	744,779	311,272
Taxes other than income taxes	37,653	40,103
Noncash charge related to issuance of common stock options	-	341,250
	-----	-----
	1,269,274	1,068,117
	-----	-----
NET LOSS	\$ (1,178,884)	\$ (992,001)
	=====	=====
NET LOSS PER COMMON SHARE	\$ (.25)	\$ (.24)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	4,804,366	4,069,167
	=====	=====

The accompanying notes to consolidated financial statements  
are an integral part of these consolidated statements.



## CHIEF CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Notes Receivable From Shareholders	Accumulated Deficit
Balance at December 31, 1993	5,653	\$2,827	3,728,373	\$1,864,106	\$4,713,694	\$ -	\$ -	\$ (4,101,093)
Sale of common stock at average net proceeds of \$3.07 per share, net of offering costs of \$52,305 paid through the issuance of 13,400 shares of common stock and cash of \$17,063	-	-	756,400	378,200	1,945,488	-	-	-
Issuance of common stock to an officer of the Company in exchange for services at an equivalent price of \$4.89 per share	-	-	14,500	7,250	63,657	-	-	-
Issuance of common stock in exchange for consulting services at an equivalent price of \$4.34 per share	-	-	2,768	1,384	10,616	-	-	-
Granting of stock options	-	-	-	-	341,250	-	-	-
Net loss	-	-	-	-	-	-	-	(992,001)
Balance at December 31, 1994	5,653	\$2,827	4,502,041	\$2,251,020	\$7,074,705	\$ -	\$ -	\$ (5,093,094)

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.



CHIEF CONSOLIDATED MINING COMPANY AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Notes Receivable From Shareholders	Accumulated Deficit
Balance at December 31, 1994	5,653	\$2,827	4,502,041	\$2,251,020	\$7,074,705	\$ -	\$ -	\$ (5,093,094)
Sale of common stock at net proceeds of \$4.00 per share	-	-	750,000	375,000	2,625,000	-	-	-
Issuance of common stock to an officer of the Company in exchange for services at an average equivalent price of \$6.44 per share	-	-	3,000	1,500	17,813	-	-	-
Issuance of common stock to two employees as an incentive bonus at an equivalent price of \$6.50 per share	-	-	2,000	1,000	12,000	-	-	-
Issuance of common stock in exchange for consulting services at an average equivalent price of \$5.74 per share	-	-	1,100	1,550	16,250	-	-	-
Sale of common stock in connection with the exercise of stock options at exercise prices of \$2.50 and \$5.46 per share	-	-	180,000	90,000	670,800	-	-	-
Exercising of stock options	-	-	-	-	75,000	(75,000)	-	-
Loans issued to shareholders for the exercise of stock options	-	-	-	-	-	-	-	-
Exchange of preferred stock into common stock	(453)	(227)	453	227	-	-	(87,500)	-
Amortization of deferred compensation	-	-	-	-	-	1,726	-	-
Net loss	-	-	-	-	-	-	-	(1,170,884)
Balance at December 31, 1995	5,200	2,600	5,440,594	\$2,720,297	\$10,491,568	\$ (71,274)	\$ (87,500)	\$ (6,271,978)

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.



CHIEF CONSOLIDATED MINING COMPANY AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWSFOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994Increase (Decrease) in Cash and Cash Equivalents

	<u>1995</u>	<u>1994</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,178,884)	\$ (992,001)
Adjustments to reconcile net loss to net cash used in operating activities-		
Noncash charge related to issuance of common stock options	-	341,250
Issuance of common stock for services rendered	50,113	82,907
Depreciation	17,743	5,836
Amortization of deferred compensation	3,726	-
Loss on investment in affiliate	-	4,804
Increase in accounts receivable	(10,027)	(17,441)
Increase in other assets	(7,725)	(2,303)
Increase in accounts payable	23,267	143,366
Increase in accrued liabilities	10,822	4,409
	-----	-----
Net cash used in operating activities	(1,090,965)	(429,173)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in U.S. treasury bills, net	(1,334,851)	(1,072,537)
Mining property development costs	(1,419,526)	(418,663)
Purchase of property and equipment	(95,118)	(44,908)
Increase in investment in affiliate	(4,560)	(9,800)
Advances to affiliates	-	(3,000)
	-----	-----
Net cash used in investing activities	(2,854,055)	(1,548,908)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from sale of common stock	3,673,300	2,323,688
(Decrease) increase in minority interest	(206)	119
	-----	-----
Net cash provided by financing activities	3,673,094	2,323,807
	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(271,926)	345,726
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	367,317	21,591
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 95,391	\$ 367,317
	=====	=====

The accompanying notes to consolidated financial statements  
are an integral part of these consolidated statements.



CHIEF CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During 1995 and 1994, the Company issued 3,000 and 14,500 shares, respectively, of its common stock (market price of \$19,313 and \$70,907, respectively, at the time of issuance) to its President and Chief Operating Officer for services rendered in connection with his employment with the Company.

During 1995 and 1994, the Company issued 3,100 and 2,768 shares, respectively, of common stock (market price of \$17,800 and \$12,000, respectively, at the time of issuance) to an entity as partial payment for professional services rendered in connection with providing environmental compliance consultation to the Company.

During 1995, the Company issued 2,000 shares of common stock (market price of \$13,000 at the time of issuance) to two employees as an incentive bonus in connection with their employment with the Company.

During 1995, the Company loaned a total of \$87,500 to an officer and an employee in connection with their exercise of options to purchase common stock.

During 1994, the Company issued options for the purchase of 210,000 shares of common stock at an option price of \$3.50 per share. The option price was below the market price on the date of grant. In connection with the issuance of these options the Company recognized a noncash charge of \$341,250.

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.



## CHIEF CONSOLIDATED MINING COMPANY AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### (1) NATURE OF OPERATIONS AND RECENT INVESTMENTS

Chief Consolidated Mining Company ("Chief") was incorporated in the state of Arizona in 1909. The Company owns approximately 14,500 acres of patented mining property in the Tintic Mining District in Utah County and Juab County, Utah. Additionally, the Company owns unpatented mining claims covering approximately 500 acres in the vicinity of its patented properties. Chief and its subsidiaries (collectively, the "Company") operate as a mineral resource company actively engaged in the exploration and development of their mining claims and properties.

The Company's unrecovered investment in mining claims and properties, net of applicable depletion, is \$4,073,668 as of December 31, 1995, representing approximately 58 percent of total assets. During the years ended December 31, 1995 and 1994, the Company has not generated significant revenues and has incurred net losses. The Company's operating activities used approximately \$1,091,000 and \$429,000 of cash during the years ended December 31, 1995 and 1994, respectively. Significant additional development costs must be incurred to bring any of the Company's mining properties with proven and probable reserves into operation.

On March 11, 1994, the Company entered into a letter agreement (the "Agreement") with AKIKO Gold Resources Ltd. ("AKIKO") providing for the eventual creation of a joint venture and the sale by the Company of a total of 1,035,000 shares of its common stock to AKIKO. On September 11, 1995, AKIKO and KOREA Zinc Co., Ltd. ("Korea Zinc") entered into a letter of intent wherein AKIKO would assign 50 percent of its potential joint venture ownership to Korea Zinc in exchange for Korea Zinc purchasing the remaining 500,000 shares of the Company's common stock that AKIKO was obligated to purchase and for a contribution of \$3,000,000 to the proposed joint venture on account of AKIKO's obligation to contribute \$6,000,000 to the proposed joint venture. The sale of stock to AKIKO and Korea Zinc was transacted through private placement transactions at a price of \$4 per share. During 1995 and 1994, AKIKO purchased 250,000 and 285,000 shares, respectively, of the Company's common stock for a total of \$2,140,000 in cash. During 1995, Korea Zinc purchased 500,000 shares of the Company's common stock for a total of \$2,000,000 in cash.

The Company, AKIKO and Korea Zinc are currently negotiating the provisions of the joint venture agreement and anticipate formation of the joint venture during the second calendar quarter of 1996. The Company, AKIKO and Korea Zinc will receive undivided 50, 25 and 25 percent interests, respectively, in the joint venture. However, AKIKO's and Korea Zinc's interests in the joint venture will not vest until they have expended a collective total of \$6,000,000 in contributions to the joint venture. The Agreement also provides AKIKO and Korea Zinc the right to discontinue the Agreement at various stages through August 31, 1998, in which event AKIKO and Korea Zinc would surrender all of their interests in the joint venture property. AKIKO and Korea Zinc would, however, retain all the shares of common stock of the



Company that they previously purchased from the Company. The Company would have no obligation to repay to AKIKO and Korea Zinc amounts contributed to the joint venture or the proceeds received by the Company from such sale of the Company's common stock.

The historical bases of the properties contributed to the joint venture will be classified in the Company's balance sheet as "Investment in Joint Venture". No gain recognition or step-up in basis will result from this transaction. The investment in the joint venture will be accounted for under the equity method of accounting.

During 1995, the Company sold 145,000 shares of common stock in connection with the exercise of stock options for cash proceeds of \$673,300, and 750,000 shares of common stock to accredited investors for net proceeds of \$3,000,000 pursuant to the Agreement. During 1994, the Company sold 471,400 shares of common stock to accredited investors for net proceeds of approximately \$1,184,000. Management believes other sources of additional capital or a new joint venture partner can be secured to continue the development of certain of its mining properties should AKIKO or Korea Zinc not be able or willing to provide the funds necessary to complete the funding provisions of the proposed joint venture agreement. There can be no assurance that the Company will be successful in obtaining sufficient capital to complete development and bring any of the Company's mining properties into operation. If the Company is not successful in raising additional capital, management intends to reduce expenditures commensurate with its cash flows.

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all majority owned subsidiaries. Investments in which the Company's interest is 50% or less and where it is deemed that the Company's ownership gives it significant influence are accounted for by the equity method.

### Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

### U.S. Treasury Bills

During 1994, the Company implemented Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." In accordance with SFAS No. 115, the Company has classified all investments in U.S. treasury bills as "available for sale." SFAS No. 115 provides for recording of "available for sale" investments at current market value with an offsetting adjustment to shareholders' equity. At December 31, 1995 and 1994, cost approximated market value for these treasury bills.



### Mining Claims and Property

Costs of developing mining properties (upon completion of exploration) are capitalized. Exploration costs are expensed as incurred. When a mining property reaches the production stage, the related capitalized costs will be amortized using the units of production method on the basis of proven and probable ore reserves. The Company's mining properties are periodically assessed for impairment of value and any losses are charged to operations at the time of impairment. No mineral depletion provisions have been made since 1978 as a result of suspension of mining on the Company's properties.

### Property and Equipment

Property and equipment are recorded at cost. Major additions and improvements are capitalized while minor replacements, maintenance and repairs that do not increase the useful lives of the assets are expensed as incurred. Provision for depreciation of property and equipment has been computed using the straight-line method over estimated useful lives ranging from 3 to 20 years.

### Investment in Affiliate

The Company owns approximately 23 percent of the outstanding capital stock of Central Standard Consolidated Mines. This investment is accounted for under the equity method of accounting.

### Income Taxes

The Company has implemented the provisions of SFAS No. 109, "Accounting for Income Taxes". SFAS No. 109 requires that income tax accounts be computed using the liability method. Deferred taxes are determined based upon the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of currently enacted tax laws.

### Net Loss Per Common Share

The Company's net loss per common share has been calculated based on the weighted average number of shares of common stock outstanding during the year. Common stock equivalents were excluded from the calculation of the weighted average number of shares outstanding for the years ended December 31, 1995 and 1994 because they were antidilutive, thereby decreasing the net loss per common share.

### Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Recent Accounting Pronouncement

In March 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting For The Impairment Of Long-Lived Assets And For Long-Lived Assets To Be Disposed Of" (effective for years beginning after December 15, 1995). SFAS No. 121 addresses the accounting for (i)



impairment of long-lived assets, certain identifiable intangibles and goodwill related to assets to be held and used, and (ii) long-lived assets and certain identifiable intangibles to be disposed of. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected future cash flows from the use of the asset and its eventual disposition (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Management of the Company does not expect that the adoption of SFAS No. 121 will have a material impact on the Company's financial position or results of operations.

### Reclassifications

Certain reclassifications have been made to the December 31, 1994 consolidated financial statements in order to conform to the current year presentation.

### (3) CAPITALIZATION

The Board of Directors of the Company has authorized the issuance, at the stockholders' option, of common stock in exchange for preferred stock on a share-for-share basis. Preferred shares obtained in the exchange are retired. During 1995 and 1994, 453 and 0, respectively, preferred shares were exchanged for common shares.

The shares of preferred stock and common stock of the Company are equal in the right to receive dividends, to vote, and in all other respects except that upon liquidation the preferred shares are entitled to a preferential payment of \$.50 per share.

During the year ended December 31, 1994 and the first quarter of 1995, the Company agreed to compensate its President and Chief Operating Officer (the "President") through cash and/or issuance of common stock at the President's election. During 1995 and 1994, the Company issued 3,000 and 14,500 shares, respectively, of common stock to the President for services rendered. The common stock was issued at an agreed upon value of an average of \$4.56 and \$3.50 per share during 1995 and 1994, respectively, which was below the market price of the Company's common stock for the period the services were rendered. As a result, the Company recognized additional compensation expense of \$5,625 and \$20,157, respectively, in the accompanying 1995 and 1994 consolidated statements of operations in connection with the issuance of these shares. The additional compensation represents the difference between the market price of the Company's common stock during the period the services were rendered and the agreed upon value per share.

During the years ended December 31, 1995 and 1994, the Company issued 3,100 and 2,768 shares, respectively, of common stock to an entity as partial payment for professional services rendered in connection with environmental compliance consultation provided to the Company. The shares were issued at a price equal to the market price of the common stock on the date of issuance.

During the year ended December 31, 1995, the Company issued 2,000 shares of common stock to two employees as incentive compensation in exchange for previous services rendered. The shares were issued at a



## **BOARD OF DIRECTORS**

**James Callery**

*Investments (Principally Oil,  
Gas and Farming)*

**Paul G. Hines**

*Financial Consultant*

**Edward R. Schwartz**

*Treasurer and Secretary of Chief; Sales Consultant*

**Victor V. Tchelistcheff**

*Management Consultant*

**Leonard Weitz**

*Chairman of the Board and President of Chief*

### **Executive Officers**

**Leonard Weitz**

*Chairman of the Board and President of Chief*

**Edward R. Schwartz**

*Treasurer and Secretary*

---

*Manager Mining Properties*

**Adren Underwood**

## **TRANSFER AGENT & REGISTRAR**

**FIRST INTERSTATE BANK OF CALIFORNIA**

*26610 West Agoura Road  
Calabasas, California 91302*

## **AUDITORS**

*Arthur Andersen LLP*

*36 South State Street*

*Salt Lake City, UT 84111*

## **ANNUAL MEETING OF SHAREHOLDERS**

The 1996 meeting of shareholders will be held later this year. Shareholders will receive notice and proxy material prior to the meeting.